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ABSTRACT

This book is a tool for Illinois school business officials, superintendents, and other administrators with budgeting responsibilities. It is also a resource for school board members. The foreword describes the financial responsibilities of the school board along with the caveat that financial management is staff work, not board work. Detailed guidance is laid out in 23 chapters: (1) "The Illinois System of Public School Funding"; (2) "Categories for Revenue Budgeting and Accounting"; (3) "The Property Tax Cycle"; (4) "Living with the Tax Cap"; (5) "Corporate Personal Property Replacement Tax Revenue"; (6) "The Distribution of General State Aid"; (7) "State Categorical Funding"; (8) "Federal and Grant Revenue"; (9) "Local Funding Sources"; (10) "Budgeting and Projecting Revenue"; (11) "Borrowing Options"; (12) "Revenue Management and Control"; (13) "Planning the Successful Referendum"; (14) "The Funding Debate"; (15) "The Structure of the Expenditure Budget"; (16) "Budgeting Calendars and Communications"; (17) "Budgeting the Elementary School"; (18) "Budgeting the Secondary School"; (19) "Budgeting Non-Instructional and Capital Costs"; (20) "Long-term Expenditure Projections"; (21) "Expenditure Management and Control"; (22) "Looking at the Big Picture"; and (23) "Looking Ahead." Two appendices contain a listing of Internet resources and a bibliography. (Contains 49 resource Web site addresses and 65 references.) (RT)

Essentials of Illinois School



Finance

A Guide to Techniques, Issues and Resources

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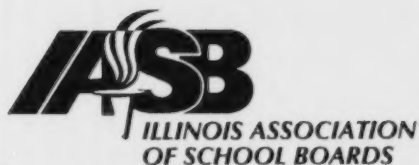
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Illinois Association of School Boards

Essentials of Illinois School Finance

*A Guide to Techniques,
Issues and Resources*

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Author's acknowledgments

This book reflects the wisdom and insights of many administrative colleagues, school board members, state officials and others who have been my instructors in school administration and finance during my career. My wife, a teacher and author, provided editorial support. Thanks also to the staff of the Illinois Association of School Boards, who encouraged the publication of this book, and to my graduate students at Loyola, who helped shape the contents over the years.

James Fritts
Highland Park, Illinois
August 1, 2002

Financial Responsibilities of the School Board

A Foreword from the Illinois Association of School Boards

By Michael D. Johnson
Executive Director

James Fritts originally wrote *Essentials of Illinois School Finance* as a tool for school business officials, superintendents and other administrators with budgeting responsibilities. The Illinois Association of School Boards was eager to publish the book because it also represents an excellent resource for school board members.

Part One presents key information about Illinois school finance, emphasizing the budgeting and management of revenues. Part Two addresses the budgeting and management of expenditures, and describes ways to assess a district's overall financial health. An appendix identifies resources that enable the reader to locate additional information.

It is essential to recognize that the financial responsibilities of the board of education differ markedly from those of the administrative staff. Although the detailed guidance for administrators contained in this book will help the board member understand what is involved, financial management is staff work, not board work.

The school board's responsibilities for the school district's financial performance can be outlined as follows:

1. Establish clear expectations for maintenance of the school district's "financial health."

The school district's financial health should reflect values of the school board and community. Board intentions reflected in policy should clarify such issues as:

- Does the school board insist on fund balances or is it willing to carry or accumulate debt in order to provide desired services? Are there limits on fund balances or amount of debt?
- Does the board require minimal levels of cash flow so that obligations can be met in a timely manner?
- On what kinds of expenditures is the school board willing to use its reserves, if any exist, or to engage in short-term borrowing?
- Does the school board require standards beyond those required by law for such matters as financial reporting, auditing or protection of assets?

2. Establish desired outcomes and priorities that need to be reflected in the budget.

The school board is the "voice of the community" in determining who gets what benefits and at what cost. The school board should satisfy itself that the budget it adopts reflects its expectations for the school district to the extent feasible.

3. Establish related expectations of the administration in its construction of the budget.

Ask the superintendent to explain the following:

- What are the assumptions on which revenue and expense projections are based? Do they seem reasonable?

- Does the proposed budget produce the balance – surplus or deficit – that the board intends or finds acceptable?
- Does the spending plan serve the priorities and objectives of the district?

4. Establish policies and limitations on staff authority governing budget preparation, purchasing, protection of assets and related business procedures.

The school board needs to be assured that:

- Its policies adequately govern school district financial and business management procedures, including budgeting, purchasing and bid letting, payment of bills, investing of funds, and other standard fiscal practices necessary to safeguard school district monies.
- Procedures are in place requiring the segregation of duties of district personnel so as to establish checks and balances in the receiving, banking and recording of funds and in requesting, making and recording of payments.
- The district is in compliance with school board policies and administrative procedures.

5. Monitor month-to-month financial performance – income and expense – in relation to the financial plan represented in the budget.

Ask the superintendent to provide the following information each month:

- A summary of income and expense in comparison with budgeted amounts, along with an assessment of whether the district will end the year where the board expected it to be.
- An updated balance sheet to show how the district's financial status is being affected by current financial activity. Is the district increasing or decreasing its fund balances and how does this relate to the district's financial health?
- Evidence that cash flow is adequate and the district is paying its bills in a timely way.

6. Monitor the district's financial health, both current and long-term.

Ask the superintendent at least once each year to provide more in-depth information reflecting the district's financial health, including:

- Cash flow trends
- Accumulation of deficits or surpluses
- Long term projections of income and expenditures, five years or more, to show where the district might be headed.

7. Stay abreast of other financial issues affecting the district.

Members of the school board need to understand a variety of issues that can become issues in the district's financial health from time to time.

- Trends in student enrollment and how they affect costs and income.
- Internal financial controls.
- Tax increment financing districts, existing and proposed.
- State mandates and financial aid.

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1 / THE ILLINOIS SYSTEM OF PUBLIC SCHOOL FUNDING

How Illinois Funds Its Schools

Illinois schools draw revenue from local, state and federal sources. The percentage of total school revenues derived from local sources increased from 45 percent in 1975-76, to 52 percent in 2000-01, after peaking at 59 percent during the early 1990's. During the same period, the state's share has decreased from 48 percent to 38 percent, while the federal share has increased from 7 percent to 10 percent.

Most of the increase in the local share is attributable to higher property taxes, as property values and tax bills underwent high inflation in the 1980's and early 90's. During this time, school districts with increasing property tax bases could "ride the increase" to generate higher tax revenues each year. The imposition of the "tax cap" in the Chicago area collar counties in 1991, and its subsequent spread to other counties, worked to contain inflation-driven property tax revenues to schools, and arrested the upward trend in the state-wide percentage of school revenues derived from property taxes.

The share of school revenues derived from state sources has decreased as that from property

taxes has increased. Declining school enrollments throughout the late 1970's and 1980's contributed to lower state aid appropriations, since the majority of state aid to schools is computed using the factors of attendance and property tax wealth per student. The non-robust state economy of this period also dampened legislative support for increases in appropriations to public education.

Federal aid rose from 6.6 percent of school revenues in 1976, to the range of 7-8 percent for the period 1982-1993. Since then, it has inched upward to just over 10 percent in 2000-01.

Current dollar figures and percentage trends can tell only part of the story. *Table 1* shows the total revenues from local, state and federal sources for all Illinois schools in two ways:

- In "current dollars" which are uncorrected for the effects of inflation.
- In "1995 constant dollars" which correct for the progressive loss in value of the dollar.

Critics of Illinois school funding point out that expenditure increases have not kept up with the rate of inflation, even during a period of rapid changes in population demographics, student needs and school programs. *Table 2* illustrates that

Table 1 – Funding Sources for Illinois School Districts, FY 79-01¹

Source	Current Dollars In Billions		Percent of Total	
	FY79	FY01	FY79	FY01
Local	2.30	9.33	47.3	51.9
State	2.13	6.78	43.9	37.7
Federal	.42	1.87	8.8	10.4
Total	4.85	17.98	100.0	100.0

NOTE: "FY" stands for "fiscal year" which, for most school districts, runs from July 1 through June 30. The fiscal year is designated by the June 30 calendar date. Thereby, FY 79 refers to the 1978-79 school year, and the 2000-01 school year is designated as FY01.

¹State, Local and Federal Financing for Illinois Public Schools, 2000-01 (SLFF).
Illinois State Board of Education, Springfield, 2002, p.1.

Table Two - Comparison of Illinois School Revenue, FY 95-01²

Fiscal year	Total School Revenue (Dollars in billions)		Enrollment in Millions	School Revenue per Pupil	
	Current \$	1995 \$		Current \$	1995 \$
1994-95	\$11.71	\$11.71	1.920	\$6,100	\$6,100
2000-2001	\$17.98	\$15.26	2.051	\$8,768	\$7,441
percent increase	53.5	30.3	6.8	43.7	22.0

an apparent 44 percent increase in total per student revenue from 1995 to 2001 amounts to only a 22 percent increase when corrected for inflation.

Illinois ranks among the bottom 10 percent of states in the percentage of school revenues from state sources, reflecting its continued strong reliance upon the property tax as the principal source of school funding.³ Changes in the state aid formula and accompanying increased appropriations beginning with the 1998-99 school year have raised the percentage of state funding to the 38 percent level, comparable to the level of the late

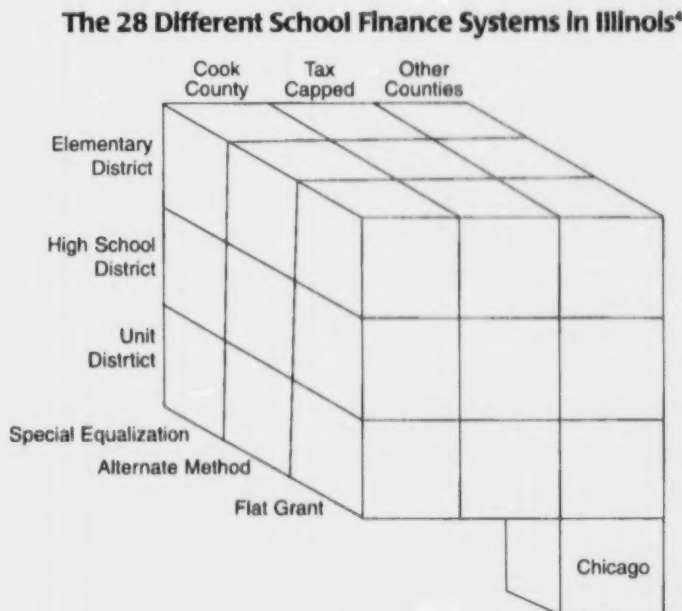
1980's. Later chapters of this book will examine the economic, legal and political factors that have caused Illinois schools to have increased their reliance upon the property tax, despite the widening resource gap between the state's wealthy and poor school districts to which this reliance has contributed.

The Funding Consequences of School District Organization

The diagram below illustrates the three dimensions of Illinois school district organization and funding. For a given district, these dimensions are its form of organization, county-wide property tax

¹ SLFF, p. 27.

² *Education Week*, January 10, 2002, Vol. XXI, Issue 17, p. 88.



⁴ This diagram is from a school finance workshop presentation by Ronald Everett, executive director, Illinois Association of School Business Officials.

laws and the district's property tax wealth per student. Each school district can be placed in one of the 27 cubes, and the parameters of its tax and general state aid revenues can then be described. Chicago District 299 operates partly under funding systems that are common to other districts in Cook County and the state, but also under provisions that are specific to the City's schools.

District Organization

Elementary (K-8), High School (9-12) and Unit (K-12) districts operate under different provisions with respect to tax rates and provisions of the formula that determine their amounts of general state aid.

Property Tax Laws

Schools in Cook County, the so-called "Collar Counties" (DuPage, Kane, Lake, McHenry and Will), and over 30 other counties are subject to the Property Tax Extension Limitation Law, which is described in Chapter 4. Most elections have seen voters in additional counties place their schools and some other units of government under this so-called "tax cap."

In addition to the tax cap, Cook County schools must deal with several unique features of the administration of the property tax in the County,

which have significant effects on the amount and receipt of tax revenues. These provisions are explained in Chapter 3.

Local Wealth/State Aid Entitlement

School districts receive general state aid on a sliding scale based on the amount of local property tax resources available to support a pupil's education. "General state aid" (GSA) refers to money paid to each school district based on its average daily attendance for the previous school year. Districts may use this money in support of any budgeted expenditure. The amount ranges from over \$3,000 down to only \$218 per pupil for approximately 40 districts at the wealthiest end of the property resource scale.

Learning about a School District's Finances

A financial profile for every school district in Illinois can be obtained on the web site of the Illinois State Board of Education at www.isbe.state.il.us/ilearn. You can compare the profile to districts in your area and to state averages. Among the key statistics are the percentages of local, state and federal revenues and the total revenue available per student. Also available are districts' tax rates and the distribution of their expenditures.

2 / CATEGORIES FOR REVENUE BUDGETING AND ACCOUNTING

The Budget as a Legal Document and Revenue Plan

Illinois law requires school districts to prepare an annual budget by designated dates and to include in it specified information on anticipated revenues and expenditures for the coming year. The budget thereby comprises the district's financial plan for the year. A summary section reveals if the budget is balanced or shows a surplus or a deficit, and projects the changes in the district's balance sheet that will result from the year's operations. Legally, the adoption of the budget provides authority for taxation and for expending money, and provides managerial information for use by state and federal agencies as well as the school district's board of education and administration. (The legal calendar for budget adoption is discussed in Chapter 16.)

The *Illinois Program Accounting Manual for Local Education Agencies*, a publication of the Illinois State Board of Education, specifies categories of local, state and federal revenues and expenditures. These categories provide the framework for the budgeting and accounting of funds in all public school districts in the state.

The Manual assigns numbers to each revenue and expenditure category, numbers that also appear on the state forms used for compiling the Annual Budget and the end-of-year Annual Financial Report. While districts may prepare displays of their budgets in various formats to facilitate communications with their boards of education, public and staff, their "official" budget and accounting system must follow the state revenue categories and numbering system.

The Manual can be consulted in school district business offices or obtained from ISBE. Study of the official state budget form will reveal the specified categories of revenues and the fund assignment options for each. The revenue section of the

budget form is in the form of a matrix, with the funds defining the columns and the revenue items defining the rows. A white space in a cell indicates that the district can assign all or a portion of that revenue to that particular fund. A shaded space indicates a non-allowable assignment.

The State Budget form can be downloaded from the ISBE Web site as a Microsoft *Excel* worksheet, allowing one to create or simulate a school budget and follow the changes in the district's financial position that result from increasing or decreasing certain revenue and expenditure items. Go to www.isbe.state.il.us and proceed to the financial menu.

The budget revenue section details, in over 100 categories, the various local, state and federal revenues which schools are eligible to receive. A district will not receive all of these revenues. Some items are specific grant programs that benefit only specific student populations in some districts. The revenue section of the budget is divided into four major groups:

1. Local revenues, such as property taxes, fees, tuition payments and interest
2. Flow-through revenues, mainly grants received by multi-district agencies and passed through to the local district
3. State revenues, including general state aid and grants in support of programs such as special education, gifted education and other special purposes
4. Federal revenues, including special purpose grants and lunch assistance

The reader of the budget or accounting report can discern the source of the funds by noting the account number assigned to the item in question. Local revenues are numbered in the 1000 series, flow-through revenues in the 2000's, state revenues in the 3000's, and federal revenues in the

4000's. One-time receipts, such as proceeds from the sale of bonds and property and transfers of funds among accounts, are budgeted and accounted for in a 7000 series, "other financing sources."

Fund Accounting

Each item of revenue must be assigned in the budget to one or more funds. A "fund" is a division of the budget for specific activities and objectives. Each fund is subject to laws and regulations to assure that money in that fund is used for the purposes specified for it in the law and the school district budget. A fund is not the same as a bank account; the district's bank accounts and investments co-mingle the various funds. The accounting system separates the moneys for the purpose of administering the budget, much as one's personal bank accounts might be divided in the household budget (or at least in one's mind) into "funds" for living expenses, vacation, or entertainment.

There are nine major funds listed in the state budget form. Some districts do not require all of them unless special purpose revenues and expenditures apply to that year's budget. The major funds, their purposes and the numbers assigned to them for accounting purposes are shown in Table 3.

There are several minor special purpose funds that districts may use for specified expenditures, such as the purchase of tort liability insurance, and which have available tax or other revenues that may be used solely for that purpose.

Certain revenues, such as property taxes, are allocated to all of the funds according to tax rates

determined by law, actions of the district's board of education and, where a referendum has been held, by its voters. Certain forms of state assistance and many locally raised revenues can also be allocated to the various funds, depending on need. Other revenues, such as taxes levied to repay bonded debt and to pay employer shares of Social Security, Medicare and Municipal Retirement payments must be allocated to that fund only. They cannot be spent for any other purpose. The allowable fund assignments for each revenue item are specified in the *Illinois Program Accounting Manual* and the state budget form.

The Importance of Budgeting Revenues

School districts engage in budgeting activities throughout the school year. A sound revenue premise is essential for making decisions on the programs, personnel and purchases that will be reflected in the following year's expenditure budget. Information pertinent to estimating the following year's revenues from property taxes, state and federal aid and other major sources should be gathered regularly, and a first draft of a revenue budget for the following year prepared in the fall. These estimates can be revised over the coming months as additional information becomes known. Since the final budget is not adopted until September, it can reflect very accurately the revenues that will accrue to the school during the year.

Long-term revenue projections are an essential element of planning for the future of the school program. Such projections are commonly constructed by "trending forward" the changes that have taken

Table 3 – Major Funds for Budgeting and Accounting

10	Educational	The largest fund, for instruction-related items
20	Operations & Maintenance	For the upkeep of buildings and grounds
30	Bond & Interest	Used solely for payments on debt
40	Transportation	For costs associated with busing
50	Municipal Retirement/Social Security	For the district's share of required payments
60	Site & Construction/Capital Improvements	A fund used when needed
70	Working Cash	For funds dedicated to provide a cash cushion
80	Rent	For payments for leased buildings or equipment
90	Fire Prevention and Safety	For eligible code-required building projects

place for the most recent three to five years. Adjustments are made to reflect new factors, such as changes in property valuations and state funding. Like the annual revenue budget, projections should be frequently updated and shared with the board of education, so that long-term planning can take place based on the latest available information on available resources. Section 10 details the process for budgeting and projecting the major sources of revenues.

To understand your district's dependence on local property taxes vis-à-vis state revenue sources, read the revenue pages of your district's budget. Locate the lines showing the total revenue for each fund and for all funds. For each fund, calculate the percentage of fund revenues from local, state and federal sources. Make the same calculation for the total revenue budget. How does the breakdown compare to the total state statistics in Chapter 1?

3 / THE PROPERTY TAX CYCLE

This chapter describes the Illinois property tax system and how schools gain access to their main source of revenue. It starts with the cycle of events that determine a school district's income from property taxes. It identifies the officers and agencies

that are responsible for each event in the cycle, and describes the procedures and timelines that they follow. Next, it describes those actions which the board of education must take each year to secure property tax revenue.

Glossary Of Terms

Illinois property tax administration uses some specialized terminology. Key terms are defined here.

Appeal: a process by which a property owner or taxing agency requests an adjustment of an assessment.

Assessment: the process of valuing real property for tax purposes.

Assessed valuation: the taxable value placed on the property by the local assessor.

Collection: receipt of property owners' payments by the county treasurer.

Distribution: payments of tax receipts by the county treasurer to schools and other units of local government.

Equalization: adjustments to local assessed valuations to bring about a median level of one-third of fair market value.

Equalized assessed valuation (EAV): a property's valuation after county and state equalization are performed. The term is applied to both individual properties and the total property within a school district or unit of government. For farm acreage and buildings and coal rights, the final assessed valuation is also the equalized value.

Extension: the process by which the county clerk calculates a government agency's tax rate. The **total extension** is the product of the agency's EAV multiplied by its calculated tax rate, and is equal to the total property tax billings on the agency's behalf. For revenue budgeting, it should be adjusted to allow for taxes that will be delayed or not collected.

Levy: the amount of the school district's need for property taxes for each fund as certified in the board of education's annual levy resolution in December.

Multiplier: the factor applied to a township or county's total assessed valuation to equalize it to one-third of fair market value, the rate specified in law.

Review: oversight and adjustment of a local assessor's valuations by a county agency to assure uniformity and conformance with legally specified assessment levels.

Tax base: the total equalized assessed valuation (EAV) of a school district.

Tax cap: shorthand for the Property Tax Extension Limitation Act, which was enacted to control the growth of property taxes of schools and some other units of government.

Tax rate: the amount of property taxes extended, expressed as a percentage of equalized assessed valuation (e.g. a rate of 2.50 percent or 2.50 computes to a tax bill of \$2.50 per \$100 of EAV. There is a separate rate calculation for each fund for which a levy is made and a total rate for the district. The total rate is equal to the total extended taxes divided by the district's EAV.

Tax year: the calendar year in which property is assessed and the levy is made. Taxes are billed, collected and distributed in the following calendar year.

Overview of the Property Tax Cycle

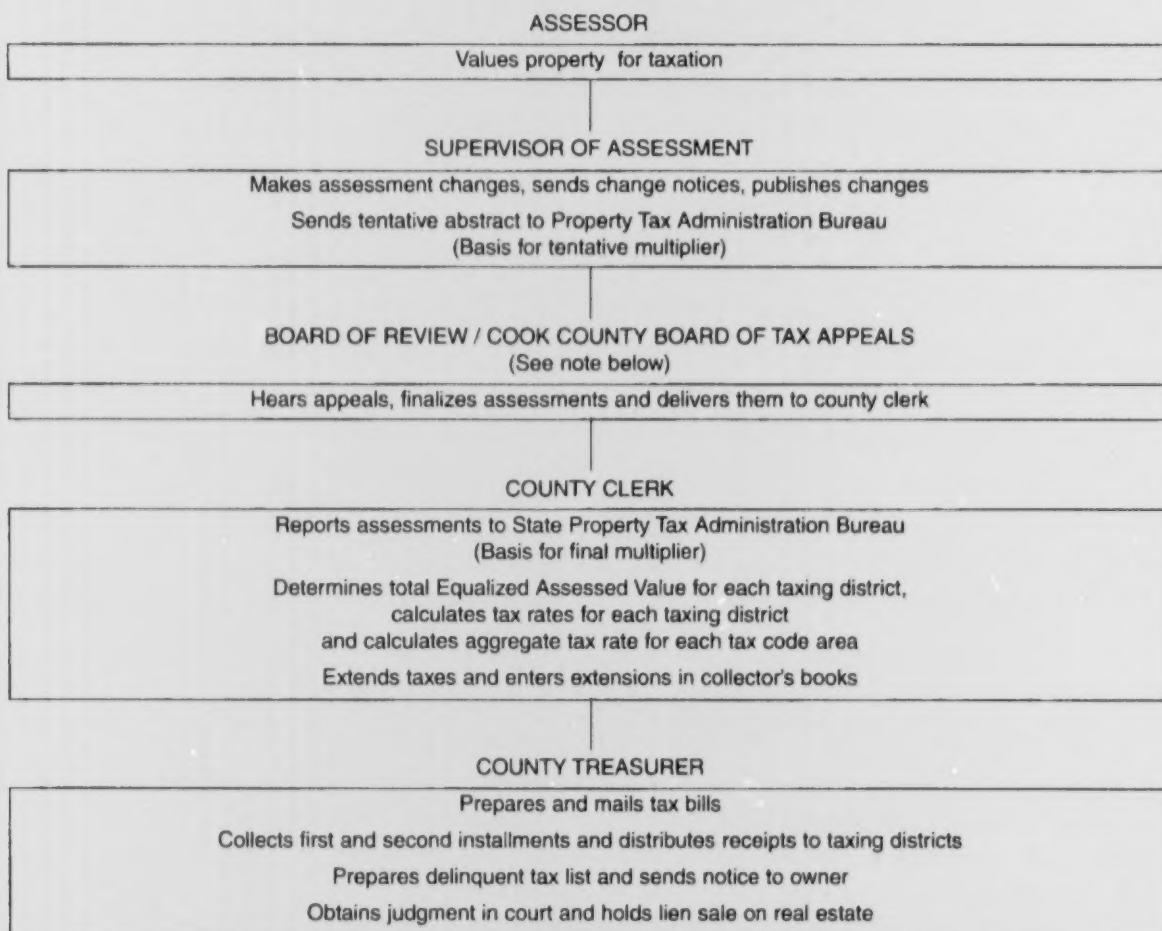
The property tax cycle has two major parts. The first is the *assessment* process, in which both local and state agencies participate. The result of this process is the total *property tax base* of a school district, which is called the *equalized assessed valuation (EAV)*. The chart below identifies the role of each agency in the cycle.

The second part of the cycle converts the district's tax base into school revenue. This part

includes the annual board of education tax revenue request (called the *levy*), the calculation by the county clerk of tax rates (called the *extension*) and the *billing, collection and distribution* of tax payments by the county treasurer to the schools and other government units which draw on the property tax.

Each year begins a new property tax cycle. For reasons going back to the Great Depression, Illinois property taxes are paid one year in arrears.

THE TAX CYCLE PLAYERS AND WHAT THEY DO



NOTE: Final appeals may be taken to the State Property Tax Appeal Board (PTAB.) Depending on the volume of appeals, this procedure can delay the collection and distribution of property taxes to schools and other agencies. The problem has been especially acute in Cook County due to the large number of appeals filed by business property owners and, in some instances, by taxing agencies alleging underassessment of large parcels of business property.

Therefore, in calendar year 2002 property tax payers paid, and schools received, the taxes based on assessments and levies that took place in calendar year 2001. Similarly, the cycle of 2002 taxation will not produce its full effect on revenues until the 2003-04 school year. Because the cycles for more than one year are underway at any given point in time, it is important to understand which *tax year* is involved in the various steps of the cycle as they occur in a school district. The steps are summarized by season on page 12.

The Assessment Process

Property assessment is an unpopular, difficult and somewhat subjective process. Assessment is primarily a local function, performed by elected township and county officials who are under the supervision of county and state agencies. Both county and state officials review local assessments to achieve consistency among townships and counties as required by law. Other county and state agencies hear appeals by individual and business property owners. This process concludes in state equalization, by an often-misunderstood multiplier applied to the valuations of each county. Farmland, railroad operating property and certain pollution control devices are exceptions to local assessment. The state plays a major role in assessing these properties. The farmland assessment process is described later in this section.

State law requires that property be assessed at one-third of its fair market value.⁵ An exception is made for Cook County, which has different specified assessment formulas for nine classes of property, ranging from 16 percent for residential property up to 38 percent for commercial property. Cook County assessment factors are determined by the county board and have been periodically changed over the years, thereby shifting the tax burden back and forth between residential and non-residential property. The present Cook County factors are favorable to homeowners and unfavorable to business property tax payers when compared to neighboring counties, which assess all property at 33 percent of fair market value.

Studies have found that assessments of all classes of property in Cook County are less than

the level specified by the county board. A state-established multiplier, recently around 2.25, is applied to bring Cook County assessments as a whole to the one-third level. The multiplier is constant for all classes of property, preserving the relative advantage of homeowners and the disadvantage of business property owners.

The discrepancy between the assessment levels specified by Cook County Board ordinance and the real levels resulting from assessment practices has brought about litigation and appeals by business taxpayers. These actions are resulting in substantial refunds of property taxes, sometimes extending back several years. School attorneys should be consulted on the current status of this issue and its potential impact on property tax revenues.

All property except farm property is to be reassessed every four years; local option exists to reassess more frequently. Properties whose condition has significantly changed, or which have been incorrectly assessed may be adjusted between county-wide reassessments. County-wide quadrennial reassessments are the norm. However, Cook County reassesses on a three-year cycle and Lake, Madison and St. Clair counties reassess one-fourth of the county each year on a rotating basis. A reassessment in the other "township counties" is scheduled for 2003. In the 17 "commission counties," where there is no township government, the most recent reassessment was in 2002.

Assessors are elected officials and thereby bear the burden of defending their assessments to the electorate. The level and the uniformity of their assessments will also come under the scrutiny of county and state officials, as well as taxpayers and voters. If errors or political pressures lead assessors to value property at less than the required one-third of fair market value, the system will correct for such actions through review and equalization.

The condition of a piece of property on January 1 determines its assessed value for that tax year. Thereby, January 1, 2002 was the date of record for determining the fair market value for tax year 2002. The record date is important to consider when projecting the value of property improvement such as new construction and other changes in condition such as increases or decreases in occupancy of commercial structures. A common budgeting error is to anticipate the revenue impact of new construction or property improvements too early.

⁵ Property tax law, including assessment, equalization and appeal procedures, is found in 35 ILCS 200.

For example, the full tax base impact of the opening of a hotel in June 2003 will not be reflected until the following assessment record date, January 2004, which is the next tax year. Rather, the taxes for 2003 will be prorated based on the date of issuance of the occupancy permit.

The 2004 tax base will reflect the completion of the hotel; but, due to the system of billing a year in arrears, it will not fully affect school tax revenues until the late spring and fall of 2005. The delay between the hotel's opening and the full increase in the school's tax revenue is two years!

The assessment profession has developed many standardized procedures for determining value. The law requires only that the assessor "view and determine as nearly as practicable" the value of each property. In fact, assessment of most residential property is conducted from secondary information such as building permits, records of home sales and other indications of market value. Sampling and statistical techniques are commonly used. Rarely do assessors visit each residential property.

Business Property

Business property assessments follow different procedures. An understanding of these procedures is important to school officials in districts fortunate enough to enjoy a significant commercial or industrial component of their tax base. It is *incorrect* to assume that the assessed valuation of a shopping center or hotel will equal its construction cost or its sale price. Fair market value of commercial property also reflects its capitalized income flow. Capitalization considers the income flow to the owner of the property and the value of the money that is invested in it.

The capitalized value of an income property is determined by dividing the annual income to its owner by a market interest rate. For example, as more stores occupy a new shopping center and rental income increases, the assessed value of the center should increase also. If it doesn't, visit the assessor and ask why. Valuation can also increase or decrease in inverse proportion to fluctuations in interest rates (the denominator of the capitalization calculation, which represents the value of the money invested in the income-producing property).

School districts can suffer major losses of revenue as a result of property tax appeals by owners of business properties. If a reduction is made, or an

underassessment is suspected, and the potential loss in tax revenue justifies the expense, a school district may wish to file an objection to the assessment reduction or an underassessment appeal. Such actions can require extensive research and fees for appraisals and attorneys, and may involve proceedings before both the county board of review and state Property Tax Appeal Board.

The first step in intervention is to request the board of review to notify the district of assessment reduction appeals of \$100,000 or more in the assessed valuation of any parcel of property. The law provides for such notice to taxing agencies except in Cook County. A Cook County school district that wants information on owners' tax assessment complaints must regularly inquire of the Board of Review as to appeals that are on file.

Farmland Assessment

Farmland is reassessed annually and is the major exception to the one-third of fair market value rule. Rather, the basis for farmland assessment is its value in agricultural use. Use value assessments are generally lower than market value assessments. Historically, this change occurred after farm values and taxes rose much more rapidly than farm income during periods of the rapid development of agricultural land for residential and commercial uses. Farmers became property rich and income poor. Farm home sites and dwellings are assessed at one-third of fair market value. Agricultural buildings are assessed at one-third of their respective contribution to the farm's productivity.⁶

The assessed valuation of farm property reflects average land sale values and farm income over a multi-year period. Multi-year averaging is used to correct for variations that occur when commodity market factors cause farmers to store crops for sale in a future year, or to sell stored crops harvested in a previous year. Because of multi-year averaging of farmland assessments, upward and downward trends in rural districts' assessed values are "locked in" for multi-year periods.

Rural schools must watch farm income and

⁶ *State Local and Federal Financing for Illinois Public Schools*, 2000-2001, Illinois State Board of Education, Springfield, 2002, p. 18. Additional information on farmland assessment procedures is found at www.revenue.state.il.us, and in other publications cited in Appendix B.

assessment trends closely to gauge the impact on their future property tax revenues. Farmland valuations and rural school tax bases underwent a significant trend of decrease in the 1980's. A reversal of this trend took place in the 1990's, benefiting those school districts which had reached their maximum tax rates and had watched tax receipts from farmland steadily erode. Lower crop prices have depressed farmland assessments in recent years, and impacted districts are forecasting future tax revenues accordingly.

Properties containing a coal or other mine, or stone or other quarry, are valued at one-third of their fair cash value. Oil, gas and other minerals, except coal, are assessed separately at one-third of their fair cash value. Coal is assessed at one-third of the coal reserve economic value.

Review, Appeals and Equalization

The assessment process concludes with the processes of review, appeal and equalization. (Refer to the chart earlier in this section). It is here that the system corrects for under, over and non-uniform assessments by local assessors. The work of assessors is reviewed by the county supervisors of assessments and boards of review, which can make changes and are responsible for sending change notices and publishing changes. An appeal process is available to both taxpayers and taxing agencies upon publication of the assessments for a tax year. The appeal begins at the county level and can be taken to the State Property Tax Review Board (PTAB) for final adjudication.

School officials should watch for the annual publication of assessment changes and especially for the triennial or quadrennial publication of the complete assessment role for the school district. It is useful to select a sample of residential and business properties and monitor it over the years. Such data will enable one to discern trends in valuation and assessment that will impact future revenues.

The purpose of equalization is not to achieve proper assessments for each property in relation to market value or to other similar properties. It is neutral with respect to property tax inequity, preserving it where it already exists. Inequities must be resolved through the review and appeal process. Rather, equalization is performed to assure uniformity within and equity among counties at a median assessment level of one-third of fair market value. If such uniformity and equity did not exist,

assessors or county boards of review could manipulate assessments so as to transfer the burden of such regional entities as community colleges to other counties or shift the school funding burden more to the state through the state aid formula. Application of tax rate and bonded indebtedness limits also requires uniform assessment levels.

Equalization occurs as county and state officials review a sample of assessments versus samples of sales data for each area being equalized. Multi-year rolling averages are used for the comparisons. Outside Cook County, initial equalization of assessments is performed by county officials. For Cook County, all equalization is done by the state. For farm acreage and buildings and coal rights, the final assessed valuation is also the equalized valuation. A factor called the multiplier is applied first to township assessments (except in Cook and commission counties) and then to county assessments to bring the area to a median assessment level of one-third of fair market value.

The multiplier will be less than one if assessments are found to average more than one-third of fair market value. It will equal one if assessments are found to be at the specified level. It will be more than one if they average less. A relatively high multiplier is applied to Cook County, with its classification system ranging downward to 16 percent for single family homes, and its blend of assessment levels for other classes. Recent years' Cook County multipliers of about 2.25 indicate that assessment levels have been running even lower than the county board-specified percentages for the various classifications. Recent studies have shown Cook county assessments for single family homes to average around 10 percent of fair market value. Business property assessments range between 28 percent and 33 percent, as opposed to the 36 percent to 38 percent specified by Cook County Board ordinance.⁷

School officials should monitor their township and county multipliers over the years. A trend of increase signals a trend of decrease in local assessment levels; the converse is true also. Since multipliers are township and/or county-wide, an increasing trend in the multiplier might be an alert that properties in the school district are being under-assessed. Since the multiplier acts the same on the

⁷ Information on current Cook County assessment practices is taken from a presentation at Loyola University by attorney Ares Dalianas on September 29, 2001.

entire area, it may or may not bring the district's total property valuation up to the assessment standard. If it does not, the schools are losing tax revenues and the board of education may want to become involved in challenging the local assessor's findings.

Problems of the Cycle

With state equalization the assessment process is complete. The school district's equalized assessed valuation (EAV), or tax base, has been determined for that tax year. Depending on the county, it has taken from 9 to 18 months since the January 1 date of record for assessments. The cycle commonly runs late, especially in Cook County, where the volume of individual properties multiplies the number of

potential appeals at the county and state levels.

In downstate counties the specified deadlines for payment of property taxes in two installments are June 1 and September 1. In Cook County the first installment is due in March in an amount equal to one-half of the previous year's total bill. All adjustments in tax rates and amounts are made in the second installment. Delays in finalizing Cook County valuations and bills in recent years have resulted in second installment tax collections being delayed well into the fall. Schools thereby lose interest on these funds or must incur borrowing costs until the tax money is distributed to them.

When the cycle is late by several months, boards must act to establish tax levies in November

The Seasons of the Property Tax Cycle

In the Spring

Assessment of property for bills payable in following calendar year.

Following equalization, County Clerk calculates tax rates based on levies made the previous December.

Cook County equalization will not occur until the summer or fall.

Taxpayers pay first installment of taxes; money is distributed to schools.

Schools complete budget decisions for the following school year.

In the Summer

Taxpayers pay their second installment tax bills. Schools receive the remainder of their tax revenues based on the levies made the previous December.

The equalization multiplier for Cook County is computed following disposition of appeals. A large volume of appeals may delay billing, collection and distribution until the fall.

Schools finalize their revenue budgets.

In the Fall

County agencies issue assessment notices, hear appeals and finalize assessments.

State issues equalization multipliers for some counties; those schools know their tax bases for the coming levy.

Schools hold hearings, adopt budgets and begin preliminary work on their following year's budget.

Schools adopt tentative levies and publish Truth in Taxation notice, if required.

In the Winter

State equalization continues for counties for which it has not been completed.

Schools adopt the levy for taxes to be collected the following calendar year, and file it with the County Clerk before the last Tuesday in December.

In the Spring

It all begins again.

and December without knowledge of what tax rate the levy will produce, and what revenue it will generate. In such cases, the board may opt to inflate the levy to ensure full revenue from the district's maximum tax rates in the event of an increase in the district's EAV. Public relations problems ensue as taxpayers read notices of such "ballooned levies" along with their property assessment notices, fearing large increases in their tax bills which may not, in fact, occur. Balloon levies were once a fact of life throughout Cook County and in some other counties where the assessment cycle ran late. The widespread practice prompted legislation that has served to restrict school tax revenues.

The legislated cures for this problem have caused severe problems for the schools. Cook County levies are now extended against the assessed valuation of the *prior year*. For example, 2003 tax revenues for funds at the maximum rate will be based on the 2002 EAV, with adjustments for property new to the tax rolls. As a result, schools adopting their levies in December know the tax base to which they will be applied during the coming summer. However, the revenue flow from general increases in assessment levels has been delayed an additional year. In counties subject to the tax cap, the growth in extensions is limited to the lesser of the rate of inflation or 5 percent annually, plus an adjustment for new construction. Therefore, large (ballooned) increases in levies, absent major new construction or a referendum to increase the maximum tax rate, will have no effect on tax revenues.

The levy process and the mathematics of computing property tax revenue in tax-capped and non-tax-capped counties are described later in this chapter and in Chapter 4.

Keeping Informed on Property Taxes

Superintendents and business officials should get to know the key people in the offices that administer the various phases of the property tax cycle—especially assessors and the officials in the county clerk's office who compute tax rates and administer the extension process. The various bond underwriting firms employ persons who serve as financial advisors to districts contemplating borrowing. Many of them will offer assistance to administrators developing levy strategies and pro-

jections of future tax revenues or trying to fathom the mysteries of the property tax system.

Property assessment information for many counties can be obtained on the county's web site, and data for some counties can be obtained on CD-ROM, greatly facilitating the establishment and analysis of a data base to track trends on a district's tax base. General information on the property tax system, including assessment and appeal procedures, is available on the web site of the Illinois Department of Revenue, www.revenue.state.il.us.

Perhaps the best way to understand the intricacies of property tax assessments and the interplay of assessed valuation, exemptions, equalization and tax rates in determining a property tax bill is to examine a bill for a single family home. Work through the factors to fathom how a school district's share of the total tax bill was determined.

The "seasons" calendar on page 12 illustrates the interplay of the property tax cycle and the school budgeting calendar. Levy actions in November and December will generate property tax revenue to be received the following summer and fall to fund the next school year. Therefore, sound fiscal management requires that planning for the levy and for the coming year's budget should be undertaken together.

The Levy Process

Boards of education must take action on a specified timetable each year to certify the amount of revenue required from local taxes. That action is called the levy. The timetable includes adoption of an estimated levy in late fall and the final levy in time for it to be filed with the county clerk no later than the last Tuesday in December. Thirty days must elapse between these two steps in Cook County, twenty days in other counties.

When the board of education considers the levy, it is looking forward to the next school year. The levy filed in December will produce the tax revenues to be received in the following summer and fall. Spending the first installment of the following year's tax money before July, or borrowing against tax revenues before they are distributed to the school district, are legal and common practices born of necessity. However, they are signs of fiscal weakness. If ever-larger percentages of each year's taxes are spent or borrowed from year to year, the

district will soon be facing a financial crisis, requiring severe cutbacks or a referendum to increase the tax rate.

The Steps of Levy Adoption

The steps for consideration of the tax levy must be followed exactly, for attorneys hired by property owners look for technical errors and may file tax objections over the most minor informalities. Such actions can be expensive to defend and settle.

1. The district must determine, on a fund-by-fund basis, the total revenue required for the coming school year. Revenue will be required to operate the program. In addition, the district may wish to tax above operating needs to increase its fund balance, if it can. Conversely, a levy below operating needs will work to decrease the fund balance. Such action might be feasible if the district had built up a surplus in one or more funds and needs the money in other funds.
2. The first step in levy planning is to develop a projected expenditure budget for the next school year. Then estimate revenue from all sources other than tax revenue. The difference is the need for property taxes, and is the justification for the levy. In reality, the school will probably need all of the tax revenue that it can legally secure. The formula for calculating tax revenue limits comes into play.
3. The formula governing tax revenue for each fund subject to a maximum rate is shown below. The maximum authorized rate for the major funds has probably been established for the district by a tax rate referendum. Absent a referendum, and for the "minor" funds, it is established by law for each fund for each type of district. These rates can be found in the ISBE publication, *State, Local and Federal Financing for Illinois Public Schools*.

Tax revenue budgeting and levy setting in tax-capped counties must also consider the current-

ly effective tax cap percentage limit in the growth of extensions. The next section describes these provisions.

In non tax-capped counties, if the EAV for the tax year being levied is known, the extension for any given fund tax rate is also known. To maximize revenue, multiply the EAV by the maximum rate for the fund and levy that amount.

If the new EAV is not known, the board may wish to hedge against an unknown increase in the tax base by a larger, or "balloon," levy. (This strategy does not work in tax-capped counties, absent a very large increase in the value of new construction.) There is no legal limit to balloon levying. However, the board must hold a public hearing if it intends to levy more than 105 percent of the prior year's extension.⁶

Keep in mind that if the most recent known tax rate for the fund is at its maximum authorized rate, an increase in the levy for the coming tax year will produce no additional revenue, unless the tax base also increases. The maximum rate cannot exceed that which the voters or the law have authorized for each fund subject to a rate limit.

In levying for a fund with no tax rate maximum (e.g., pension or tort liability) or for an operating fund where the maximum rate has not been reached, an increase in the levy will produce additional tax revenue until the maximum fund rate, if any, is reached.

4. No levy action is needed for the bond and interest fund. The county clerk will extend taxes for debt service based on levy resolutions filed when bonds were sold for each year such a levy is required. However, it is wise to check the clerk's reported levy amount at the bottom of the levy form against district records to be sure no errors occur. Also, check the bond and interest fund balance on an accrual basis to be sure that pre-

⁶ Truth in Taxation Act, 35 ILCS 200/18 et seq.

Total Extension (total billings)	=	Tax Rate (to maximum authorized rate)	x	Equalized Assessed Valuation
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Or, in simpler terms: **Revenue = Rate x EAV**

vious errors or underpayments of taxes have not caused a deficit to accumulate. If it has, tax revenue will run out before the bond obligations do. The cure is a resolution to request an additional bond and interest levy to cure the deficit. A school attorney or bond counsel can draft such a resolution if it is needed.

5. The levy for the working cash fund need only consider the need for establishing, increasing or decreasing the balance in this fund. No expenditures can be made from this fund. The total balance in this fund is limited to 85 percent of the sum of the most current education fund taxes and the corporate personal property replacement tax revenues for the past year.⁹
6. The final step in the levy decision process is to add up the levies for all the funds and look at the result to answer several "political" questions. What total tax rate will the levy produce? More significantly, what will be the school tax bill for an average homeowner? Will a reassessment for this tax year raise the bill if the levy is ballooned? How will the homeowner's school tax bill compare to the past year? If bond levies will be required in future years, how will this tax year's bill relate to future bills? Do the answers make any difference in the board's intended action? These questions should be answered before the levy is finalized.
7. If the levy exceeds the previous tax year's operating fund extension by more than 5 percent, publication of the Truth-in-Taxation notice is required, and a hearing must be held before the levy is adopted. The hearing must be held on a separate date from the hearing on the budget. Cook County districts are required to publish levy notices and hold hearings regardless of the amount of the levy increase until January 1, 2003. The ISBE publication, *State, Local and Federal Financing for Illinois Public Schools* illustrates the notice requirements of the Truth in Taxation Act.
8. The levy must be filed by the fourth Tuesday in December on a state-issued form with the county clerk, who date stamps it and returns a copy to the district.

⁹ Caution is advised in all actions involving the working cash fund. The School Code specifies strong penalties for board members and school officials who willingly violate code provisions governing that fund. 105 ILCS 5/20-6

Extension, Collection and Distribution

After taxpayer appeals have been disposed of, and the state certifies the equalization multiplier for the county, the county clerk will extend the levy against the tax base (EAV) of the district. Bills are mailed out and payments returned to the county treasurer, who distributes the revenue to the taxing agencies.

The county clerk is responsible for seeing that levies are reduced, if necessary, so that they do not produce a tax rate greater than that authorized by the district's maximum rates or by the tax cap limits. A communication called the levy edit is sent out by the clerk's office in the weeks prior to the calculation of the extension. This communication will serve as notification of the levies and maximum rates on file in the clerk's office. It is the last chance to correct errors and to designate which funds, if any, are to be reduced, so that the total extension fits within the tax cap limits.

It is important to be sure that the clerk's records of the levies and maximum rates are correct; errors do occur and can produce catastrophic results. It is not wise to budget tax revenues based on 100 percent collection of the extension. Collections will be reduced by late payments, bankruptcies or other adverse developments, especially where refunds are approved for large taxpayers. The district's audits for recent years will provide guidance for adjusting the budget for probable uncollected taxes.

Billing begins in the spring; deadlines for the two installments may vary from year to year depending on the speed, or lack of it, with which the assessment/equalization process takes place. It is wise to research recent practice in a given county to accurately project revenue flow. Legally-specified payment dates for the two installments outside Cook County are June 1 and September 1.

The first installment bill in Cook County is due in March. All changes due to revisions in EAV and tax levies are calculated into the second installment. Combined with the confusion over the multiplier and triennial assessments, this practice contributes to the annual summer/fall tax shock that reverberates around public offices throughout Cook County. Second installment billing in Cook County now runs well into the fall, often requiring a district to update its cash flow projections to determine if short-term borrowing will be necessary.

The Future of the Property Tax

The property tax has a long legacy. It is an important source of government revenue in English-speaking countries throughout the world, despite the development of a more easily valued method of gauging wealth—that is, income. Although politically unpopular, it has proven to be resistant to change.

Pressures to shift the burden from residential property have and may continue to result in tinkering, such as exemption increases, circuit breakers and other devices favorable to homeowners. Pressures from organizations representing taxpay-

ers, business, agriculture and mining may result in further restrictions on tax growth and changes that operate on spending rather than on revenue.

Although initiatives to restrict property tax revenues are now common events in the legislatures of many states, property tax revenues are unlikely to disappear as an important source of Illinois school revenues. Therefore, it falls on educational leaders to continue to strive to understand and to apply its ever-changing, intricate mechanisms for the benefit of the school children in their charge.

4 / LIVING WITH THE TAX CAP

The Tax Cap Law

The Property Tax Extension Limitation Law,¹⁰ popularly known as the "tax cap," became effective with the 1991 tax year for school districts and other "non home rule" government agencies in DuPage, Kane, Lake, McHenry and Will counties. It was expanded to Cook County in 1994, and voters in more than 30 other counties have subsequently adopted the measure by referendum. (See *Table 4*.)

The stated purpose of the tax cap is to control the growth of property taxes. It is not a limit on the annual growth of school expenditures, although such limits do exist in several states. However, it effectively controls the growth of expenditures by limiting the growth of schools' primary source of revenue, regardless of enrollment growth, program requirements, building repair needs and other forces that create a need for new revenue.

The tax cap controls the property tax revenues of schools, parks and other "non home rule" agencies. Contrary to the expectations of many who voted for the tax cap, increases in individual property tax bills are *not* controlled, since their growth reflects the actions of both non-capped home rule government units and capped non-home rule agencies.

Under Illinois law, a "home rule" local government agency has authority to establish tax rates and to enact certain laws without regard to limits enacted by the Illinois legislature. Many cities and larger municipalities enjoy such home rule powers by virtue of the size of their populations or as a result of a referendum. Illinois school districts do not enjoy home rule powers, nor can home rule be conferred upon them by a referendum.

The tax cap controls school property tax revenues in two ways:

- By limiting the annual increase in total property tax receipts (the extension) and
- By limiting or curtailing the issuance of certain forms of bonds that, prior to the enactment of the tax cap, could be issued without a referendum.

The result has been devastating to the property tax revenues of schools in tax capped counties. Severe budget cuts typically occur during the years immediately following the imposition of the cap, as schools adjust to the realities of lower growth in tax revenues.

The tax cap limits the increase in total extensions (except for taxes levied for certain bond and interest payments) to the *lesser* of 5 percent or the 12-month rate of inflation as measured by the All Urban Consumer Price Index published by the United States Department of Labor. That rate has not reached the 5 percent level since the enactment of the cap. It was 3.4 percent for the 2001 tax year, and only 1.6 percent for 2002. Higher increases must be approved in a referendum.

There are several possible adjustments to the tax cap limits, but they do not benefit all districts to the same extent, thereby compounding the existing inequities of the Illinois school funding system. The adjustments can occur as follows:

- Districts receive an increase over the limitation that is proportional to the amount of new property added to the tax base as a result of new construction or annexations of property to the district. New property is defined as construction that changes the use or increases the value of the property. A newly built store would qualify, but refurbishing of an existing one might not, and the schools would not see increased tax revenue from the property as a result of that improvement.
- If voters have approved a tax rate increase by referendum, the extension may be increased pro-

¹⁰ 35 ILCS 200/18-185 et seq.

portionately for that tax year and for the next four years.

- If a district has a decreased aggregate extension base in the previous year, compared to the year before that, the limitation is based on the highest extension in any of the three preceding years.
- A district that levied to pay the principal and interest on non-referendum "limited tax" bonds in the levy year during which the tax cap was approved in that county (see table below) may issue new limited tax bonds. The annual levy for such bonds may be no higher than the bond and interest levy for limited tax bonds in the year the cap was approved. Working cash, fire prevention and safety, insurance reserve and funding bonds are the most common forms of non-referendum or "back-door referendum" debt that are limited by the tax cap law. The limit on the annual levy for such bonds is referred to as the Debt Service Extension Base (DSEB). This provision "locks in" the non-referendum debt entitlement for districts that were paying off such debt in the year the cap was voted. All other districts in tax capped counties must submit such borrowings to

a referendum, thereby compromising for some districts a powerful financing tool for raising cash and funding safety-related building improvements that is available to others.

No county approved the cap in 1995 or 2001. A referendum to impose the cap may be placed on the ballot by the county board at any regularly scheduled election except a consolidated primary election.

The Tax Cap and The School Program

The tax cap formula does not take into account changes in a school district's budgetary needs as a result of enrollment changes or new programs. Thereby, the cap has had especially severe effects on the schools in older communities that are undergoing "generation turnover" in their populations where existing housing is being sold by childless residents to families with school age children.

School enrollments and expenditures increase, but property tax revenues may increase only at the government-calculated general inflation rate, rather than the higher rates at which housing usually appreciates and to which school expenditures

**Table 4 – Year of Enactment of Property Tax Extension Limitation Law
(And Levy Year for Determining Debt Service Extension Base)¹¹**

1991	1994	1996	1997	1998	1999	2000
DuPage Kane Lake McHenry Will	Cook	Boone Champaign Christian Franklin Jackson Kankakee Lee Logan Macoupin Menard Monroe Morgan Randolph Sangamon Schuyler Union Williamson Winnebago	JoDaviess Kendall McDonough Stephenson	Jefferson Marion Tazewell Washington	DeKalb Livingston	Greene Massac Shelby

¹¹ *State, Local and Federal Financing for Illinois Public Schools, 2000-01*, p. 52.

must grow to meet the needs of the growing population. Unless new construction occurs, which requires that there be vacant land or redevelopment of large parcels of property, the school district's property tax revenues will not be able to keep up with needed expenditures. Class size increases and a scarcity of money for needs such as technology and building repair and expansion will result, unless a referendum is successful.

Educational program curtailments and staff reductions commonly occur in the years following the enactment of the tax cap. Teachers in specialized programs such as art, music, physical education and low enrollment high school programs have borne much of the brunt of these reductions. In some cases, class sizes were increased to reduce the need for classroom teachers and classroom space. Many districts outsourced cleaning and maintenance services, reduced administrative staff, deferred building maintenance, cut purchases of supplies and equipment, enacted early retirement incentives and took other cost-reduction measures.

Teacher salary increases slowed during the early and mid nineties, as the realities of limited revenues and the prospect of job cuts influenced the negotiations process. Recently, however, the rate of salary increases has risen above the tax cap limit. When a district adopts a multi-year salary settlement calling for annual increases greater than the tax cap limit, it is anticipating (or hoping) that new property growth will increase tax revenues to support this increase. Trouble will follow, however, if the increased revenue will be required to fund additional teaching positions or other needs. If anticipated tax revenue increases do not occur, the district will experience growing deficits and perhaps a need for a referendum to increase the authorized tax rate.

The prospect of the tax cap has generated a flurry of non-referendum borrowing in the months preceding a referendum to impose the cap in a particular county. Districts floated working cash, fire prevention and safety and other so-called "limited tax" bonds to lock in their entitlements to do so in future years. Districts that did not issue such debt, either due to lack of need or foresight, must take all borrowing plans to their voters in a referendum. Such referenda may be held only when other elections are held. Therefore, if a district foresees the need for borrowing, contingency plans for one or

more defeats must enter into the long-term timetable to secure needed money.

County-wide referenda to impose the tax cap have usually succeeded. Therefore, administrators and board members in non capped counties need to be aware of its potential effects on their revenues and of the steps that can be taken prior to its enactment to mitigate its effects. In addition to considering locking in their limited tax bond issuing entitlement (DSEB) by issuing new bonds, boards of education should establish their annual levies at the maximum amount permissible under the district's tax rate limits. If the tax cap comes, the base for the calculation of subsequent years' revenues will be at the highest possible level. School officials should also inform the public of the anticipated effect of the cap on school revenues and programs. Representatives of public finance firms can help prepare five-year financial projections, borrowing options and tax impact projections for board of education consideration.

If it comes, dealing with the cap will require the administration to employ all of its leadership and political skills to educate the board of education, staff and community about the new revenue realities and what it will mean for the program, buildings, jobs and morale of the school district. Few if any districts were unscathed financially by the imposition of the cap and most "bit the bullet" and acted quickly to bring their expenditures in line with projected revenues. While increases in state aid helped many of the state's poorest districts, they have not been sufficient to offset the loss of revenue caused by the property tax revenue limitations.

If a district requires a referendum to exceed the tax cap limits or raise its operating tax rates, it must choose from several options as to the wording of the question. The precise wording of the option selected is specified by law and can easily confuse the voter. Therefore, assistance from attorneys and/or public finance specialists in selecting and explaining the proper form of question is an essential step in planning for the referendum.

Computing Tax Rates and Extensions under the Tax Cap

The algebra of the tax cap, which is illustrated below, causes individual fund tax rates over the years to fall below the maximums authorized by

voters or state law. Therefore, the cap has had the effect of requiring districts to look at their total levy for the operating funds and to decide which of the funds are to be designated to receive tax revenues up to the fund's rate limits. In the example below, the district could, by reducing expenditures and tax revenue needs in its operations and maintenance fund, instruct the county clerk to increase education fund taxes by the same amount, as long as the authorized maximum rate in the education fund was not exceeded. Such instruction is made in the spring prior to the clerk's extension of taxes and setting of tax rates.

A tax capped district is limited in the maximum growth of its **total operating fund property tax revenue** (excluding bond and interest tax receipts.) The conceptual formula for understanding the effect of the limit is:

$$\text{Tax revenue (TR)} = \text{prior year TR} \times \text{COL adjustment} + \text{TR from new construction}$$

A superintendent or school business official outside Cook County will want to use this formula to accurately estimate the amount of property taxes that will be produced from the district's tax base. (Special provisions exist for Cook County, which is subject to the "prior year EAV" method of computing extensions. The prior year's tax base is adjusted by the value of new construction, so that Cook school districts can gain access to taxes on the new construction.)

The example on page 21 illustrates the actual steps by which the county clerk computes a district's tax rate and revenues in tax capped counties. To follow the step-by-step instructions, start with the extension for the previous tax year.

Importance of Monitoring Tax Cap Calculations

The Illinois Department of Revenue establishes and oversees the procedures for calculating property tax extensions under the tax cap. However, individual county clerks sometimes have their own interpretations of several fine points in the tax cap law, which can result in increases or decreases in tax revenues of substantial amounts. Since the extension of one year becomes the starting point for the following year's tax cap calculation, an interpretation adverse to the school repeats itself and accumulates its effects in future years.

Therefore, administrators with financial responsibilities should consider consulting the school auditor and/or attorney at the time the county clerk communicates on the proposed calculation and distribution of the district's extension. This usually occurs in the spring, although it could be later in Cook County in years when the final calculation is delayed into the fall.

Resources in the public finance community that can assist in tax cap calculations, revenue projections and audits include the public finance firms that underwrite and assist districts in selling school bonds and other debt instruments. The ISBE publication, *State, Local and Federal Financing for Illinois Public Schools* contains a good description of the tax cap and how it operates to restrict tax revenues. One of the best ways to come to an understanding of the arithmetic of the tax cap is to collect and study the prior year's working papers relating to the extension of the tax levy by the county clerk, along with the corresponding property tax bills sent to residents.

Explaining the effect of tax revenues to the public is especially complex. A good starting point is to collect board reports and budget documents from other districts that have built such explanations into their communications.

Formula for Computing Allowable Tax Extensions¹² Under the Tax Cap (outside Cook County)

The following definitions apply to terms in this formula:

Limiting tax rate: the calculated total allowable tax rate for all operating funds, excluding bond and interest. The aggregate rate for all operating funds cannot exceed this rate. The rate for bond and interest payments is in addition to the limiting rate.

Aggregate extension base: The prior year tax extension for all funds, except bond and interest.

New property: New improvements or additions to existing improvements that increased the assessed value of that real property during the tax year.

Step 1: Compute the limiting tax rate for the total of all operating funds.

A. Multiply the **previous** year's aggregate extension base by the inflation factor applicable to the **current** levy year. The example uses 2.0 percent for simplicity.

B. Subtract the value of new construction from the **current** year's EAV

Note that by subtracting the value of new construction from the denominator of the fraction, you thereby increase the limiting rate, as intended by the tax cap law to give districts access to tax base growth from new property valuation.

C. Divide the result of step A by the result of step B. The result is the limiting tax rate.

Example: The district's total extension, not including bond and interest for the **last tax year** was \$5,000,000.

The district's total EAV for the **current tax year** is \$210,000,000, of which \$10,000,000 is due to "new construction" as defined in the tax cap law.

$$\text{Limiting rate} = \frac{\$5,000,000 \times 1.02}{\$210,000,000 - \$10,000,000} = \frac{\$5,100,000}{\$200,000,000} = 2.550\%$$

Step 2: Multiply the limiting rate by the EAV for the **current** year to determine the total extension for the operating funds.

$$\text{Limiting rate} \times \text{EAV} = \text{Revenue}$$

$$\text{Example: } 2.550\% = .0255 \times \$210,000,000 = \$5,355,000 \text{ total limited extension}$$

Step 3: Distribute the total extension to the various operating funds, and complete the levy process. Consider the need for each fund for tax revenue, but do not exceed the authorized tax rate for each fund.

Simplified example (Certain commonly used funds are not included. Rates are expressed as percents):

Fund	Extension	Computed rate (a)	Authorized rate (b)
Education	\$4,255,000	2.026	2.350
Operations & Maintenance	700,000	.333	.350
Transportation	200,000	.095	.120
IMRF/Social Security	200,000	.095	.095 (not limited)
Total	\$5,355,000	2.549	2.915
Limiting rate		2.550	

(a) Computed by dividing the extension for each fund by the current year EAV of \$210,000,000.

(b) The district's rate for each fund was established by referendum or by the state limit. There is no set limit for the IMRF/Social Security fund; it reflects the district's need.

In the above example, the tax cap has cost the district, just this year, an amount calculated by multiplying the difference between its maximum authorized total rate and the limiting rate times the current year EAV, or $(.02915 - .02550 \times \$210,000,000) = \$766,500$.

¹² This calculation example is from "The Tax Extension Limitation Law," a presentation to the Illinois Association of School Business Officials by Elizabeth Hennessy in November 1997.

5 / Corporate Personal Property Replacement Tax Revenue

History

"Corporate Personal Property Replacement Tax Revenue" (replacement tax or CPPRT) takes the prize for the most cumbersome revenue title in the Illinois school budget. While it is collected from Illinois corporations and distributed to government units by the Illinois Department of Revenue, it is treated for accounting, state aid and some debt issuing purposes as a "payment in lieu of taxes." This classification reflects its ancestry as a component of the property tax. School districts receive approximately half of the total state pool.¹³ It is a considerable source of revenue for some districts and a minor item for others. Understanding it requires a brief history lesson in Illinois tax policy.

Illinois property taxes were once assessed in two classifications: real estate and personal property. Both classes of property were included in school districts' tax bases. For individuals, personal property included household items and other forms of "wealth" that were intrusive to assess and unpopular to tax. For corporations, "personal property" included fixtures, furnishings and equipment that was not integral to the real property. In short, if it could be moved, it was personal property; if not, it was real property. Local township and county assessors can provide information on the types of business property that are considered "personal property" when these properties are assessed for real estate taxes.

The corporate personal property tax was abolished by the 1970 Illinois Constitution, effective in 1979. A "replacement tax" on the net income of corporations, partnerships and trusts, enacted to offset the lost revenue, is collected by the state, which distributes it to local taxing agencies as "replace-

ment revenue." The personal property tax on individuals was abolished in 1978.

Administration Of The Replacement Tax

Each taxing agency's CPPRT revenue is computed by the Department of Revenue by multiplying the total state pool by the agency's allocation factor. The allocation factor is computed to several decimal places and is unique to each agency. It represents a share of the state pool determined by the amount of the agency's former corporate personal property tax collections. Even though the businesses that once generated personal property tax revenue may have moved or disappeared, or new businesses may have been established within its boundaries, an agency's allocation factors remains unchanged.

Payments to school districts are made in eight installments during the fiscal year; they are designated by the Department of Revenue with one of two calendar years for which the corporate tax was collected. Thereby, in school year 2002-2003, schools received payments designated as "2001 replacement revenue" and the four remaining payments designated as "2002 replacement revenue."

Budgeting Replacement Tax Revenues

Since the allocation factors remain constant, increases and decreases in CPPRT revenues depend on state-wide corporate personal property replacement tax collections. These collections in turn depend on the health of the Illinois business economy. Absent a clear trend of increase or decrease, it is common for schools to budget constant replacement tax revenues for the coming year. Longer term budgeting should take into account any general trends in the economy, which are predictive of future trends in the size of the state-wide replacement tax revenue pool. The

¹³ Information on distribution of CPPRT revenues is found on the web site of the Illinois Department of Revenue, www.revenue.state.il.us.

Illinois Department of Revenue can assist schools in estimating and verifying the amount of Corporate Personal Property Replacement Tax Revenue.

The fund assignment for replacement tax revenue is at the annual discretion of the district, with the exception of an amount that must be designated for municipal retirement/social security purposes and placed in that fund. If the district is still making payments on bonds issued prior to the abolition of the personal property tax, a portion of its replacement tax revenue may also have to be allocated to the Bond and Interest Fund. The district's bond counsel or auditor can advise on this question. Otherwise, the money can be assigned to any operating fund for which property taxes are levied.

The historical association of the replacement tax with local property wealth continues to manifest itself in the general state aid formula, which is illustrated in a subsequent section. General state aid is inversely proportional to each school district's "available local resources" to fund its educational program. The calculation of available local resources includes the amount of replacement tax revenue as well as local taxes on real estate. Therefore, an increase in replacement tax revenue works to decrease state aid and vice versa.

However, CPPRT revenues work to the benefit of school districts that are issuing certain types of bonds and debt obligations. The calculation of the maximum amount of debt that can be issued takes

replacement revenue into account, as if it represented part of the real estate tax base. The allowable amount of debt increases (or decreases) along with its most current annual replacement revenue allocation. Bond attorneys such as Chapman and Cutler perform the calculations of borrowing entitlements at the time bond issues are planned. The ISBE publication *State, Local and Federal Financing for Illinois Public Schools* contains general information on entitlement amounts for short and long-term borrowing.

Districts that monitor the assessed valuation of large commercial and industrial properties continue to have an interest in the issue of corporate personal property. Part of corporations' state income tax is designated as "personal property replacement tax" and is computed as a percentage of earnings. In the interest of avoiding "double taxation," corporations therefore consider their movable equipment and fixtures, office furniture and the like as "personal property," and not includable as part of their real estate assessment. If assessors do not agree, businesses are likely to appeal. When schools estimate the increase in their tax base from the published (not assessed) value of a large real estate development, such as a store, factory or hotel, they should keep in mind that some of the value of the improvement, representing movable items, will probably not be included in the real estate tax base.

6 / THE DISTRIBUTION OF GENERAL STATE AID

The general state aid formula is designed to ensure that all students in Illinois have access to educational goods and services valued at a basic "foundation level" or more. The foundation amount is funded from both state aid and local property taxes through a formula that divides school districts by type into three segments, low wealth, high wealth and moderate financial ability.

The Foundation Level

The cornerstone of the present system of financing Illinois public schools is the foundation level. The foundation concept dates back to the 1920's and is a part of the school finance plan in many states. In Illinois, it drives a formula that serves as a resource equalizer. The basic Illinois resource equalizing formula has been in place since the early 1970's. It allocates more state funds to districts in the lower range of local ability to raise funds from the property tax due to low property valuations. Districts with higher ability to raise local tax moneys for education receive progressively less state aid, down to a token amount per pupil for the 45 or so property-wealthiest districts.

The foundation level represents an amount of dollars that the state legislature believes should be available to educate each child. This minimum amount, from state and local funds, has been established by the legislature as follows:

1997-1998	\$3,132 (supplemented for some districts to \$4,100)
1998-1999	4,225
1999-2000	4,325
2000-2001	4,425
2000-2001	4,560
2002-2003	4,560

The flattening of the foundation level for 2002-2003 reflected the severe state budget crisis that confronted the legislature in the spring of 2002.

The foundation level for subsequent years is to be established by the General Assembly with advice from an Educational Funding Advisory Board. The work of that Board is being closely watched to determine if it will recommend a substantial increase in the foundation level—and means of raising the needed revenue. The reports and other work of the Education Funding Advisory Board can be followed through the financial services section of the ISBE web site, www.isbe.state.il.us.

The foundation level is not all state money. It is a guaranteed level of resources to be funded by a "partnership" of the state and each local school district. Each district must apply a formula-driven amount of its available local property taxes and its Corporate Personal Property Replacement Revenue towards the foundation level amount. The state, through the equalization formula, provides the balance of the foundation level per pupil as the district's General State Aid (GSA) entitlement.

When the GSA formula results in a decrease in state aid below the 1997-98 level, a "hold harmless" provision presently guarantees no decrease in GSA for such districts. However, funding to pay hold harmless amounts is subject to an annual appropriation by the legislature, and it is risky to assume continuation in projecting future years' revenues from general state aid.

The General State Aid Formula

The following definitions are used for the factors in the General State Aid formula.

- **Available local resources** are the product of the district's tax base times a tax rate that is constant for each type of district, plus its Corporate Personal Property Replacement Tax revenues. The tax rates, expressed as a decimal for calculation, are .023 for an elementary district, .0105 for a high school district and .030 for a unit district.

- **Equalized Assessed Valuation (EAV)** is the amount of the district's total property tax valuation or tax base. For state aid payable in 2002-03, the 2000 EAV is used. Adjustments apply in some cases for certain abatements, court decisions and appeals.
- **Corporate personal property replacement tax revenues (CPPRT)** are tax payments from businesses that are collected by the state and distributed to local governments based on the amount of corporate personal property taxes that were once collected as part of the property tax. Due to the history of these taxes, they are considered part of a school district's available local resources. The state aid formula uses the amount paid to the district two years before the calendar year in which the school year begins.
- **Foundation level** is the amount per pupil designated by the legislature as the minimum amount of resources to be available from combined property and corporate replacement taxes and general state aid. It is \$4,560 for state aid paid in 2002-03.
- **Average Daily Attendance (ADA)** for state aid calculation is based on the three months' attendance during the previous school year. Except for half-day kindergarten pupils, all grades' attendance counts equally. Districts with declining enrollment may use the average ADA of the three prior years.
- **Poverty count** is the number of pupils from low income families based on U.S. Census data, and thereby open to criticism by many districts as dated, particularly near the end of the ten-year census period.

There are three variations of the GSA formula. The foundation formula distributes GSA to approximately 700 of the state's school districts. These are districts whose available local resources per pupil are less than 93 percent of the foundation level. For 2002-03 GSA, the 93 percent point is equivalent to 93 percent of \$4,560, or \$4,241.

An **alternate formula** is used to calculate GSA if available local resources per pupil are between 93 percent and 175 percent of the foundation level (\$4,242 to \$7,980). This method applies to about 140 districts too wealthy for the foundation formula, but not wealthy enough for the flat grant. It produces between \$219 and approximately \$310 of GSA per pupil in 2002-03.

Approximately 45 of the wealthiest districts receive a flat grant of \$218 per pupil, which has not increased in several years. The flat grant and the alternate method are manifestations of the political impossibility of eliminating these districts from the distribution of the GSA pie.

Supplemental poverty grants are paid on a sliding scale for each low income pupil, as follows:

Low Income Concentration Level as a Percentage of Total ADA	Aid per Poverty Pupil
0-10 percent	\$ 355
10-20	675
20-35	1,330
35-50	1,362
50-60	1,680
Over 60	2,080

The Education Funding Advisory Board has been considering modifying the poverty grant component of the formula. Instead of being based on brackets of percentages of poverty children, the formula would be curvilinear above the 15 percent bracket, thus providing progressively higher per pupil grants as the percentage of poverty children increases. Per pupil grants below the 15 percent level would be \$355. A proposal to base future poverty counts on more current data from the Illinois Department of Human Services is also under consideration, as is a multi-year phase-in of new poverty formula provisions.¹⁴

The financial section of the ISBE web site at www.isbe.state.il.us includes a worksheet that enables district officials to view how the formula components interact to compute the district's general state aid and poverty grants. The worksheet, illustrated on page 27, can also be used to simulate the effect of changes in enrollment and the foundation level and of legislative proposals to modify formula factors. Such simulations assist revenue budgeting for the coming year and long-term projections. The same web site also includes statistics on state aid to each district, as well as state-wide totals. The ISBE publication *State, Local and Federal Financing for Illinois School Districts* has an extensive discussion of the mechanics and terminology of the General State Aid formula.

¹⁴ The EFAB proposal information is drawn from a talk by ISBE staff members at the April 2002 conference of the Illinois Association of School Business Officials.

It is enlightening to follow the process of developing the total state education budget. The ISBE web site posts the various drafts as they are considered by the State Board of Education, usually beginning in the fall. The final budget is published in the late spring, following completion of legislative appropriation actions.

Interpretation of the preliminary budgets and the issues associated with their discussion can be found during the year on the web sites of the administrative and school board associations that have combined to form a legislative information service known as "The Statewide School Management Alliance." One access point for Alliance reports is the web site of the Illinois Association of School Boards at www.iasb.com.

General State Aid in the Big Picture

The General State Aid formula distributes revenue that is "unrestricted" revenue, in that it can be used for any purpose for which it is legal for school districts to expend funds. Most districts designate their GSA for the Education fund, but it can be allocated in whole or part for building operations, transportation and other operating purposes. The 2002-03 (FY2003) total state budget appropriation for GSA payments, including poverty grants, is \$3.12 billion, a decrease of \$111.4 million from FY 2001. The decrease reflects the combined effect of holding the foundation level constant, enrollment changes and changes in districts' tax bases.

An additional \$65.7 million was appropriated for "hold harmless" payments to alleviate decreases in individual districts' GSA that would otherwise have occurred due to changes in the formula factors that affect that district. Also, so-called "ADA block grants" designated for "school safety and educational improvement" called for an appropriation of just under \$67 million. These two payments plus the GSA appropriation total \$3.25 billion, or 62 percent of the \$5.134 billion appropriated for schools from the state's general revenue fund, excluding payments to the retirement system.

Appropriations for specific grants, loans and other purposes, including pensions and pass-through of federal funds, combine with general rev-

enue appropriations for a FY03 total ISBE budget of \$8.218 billion. A summary of the 2002-03 ISBE budget appears in the next section, which discusses some of the major restricted revenue to support specific school district programs.

The Future of Foundation Funding

The foundation level, after many years of stagnation which saw minimal increases of far less than increases in the cost of education, substantially increased in 1998-99. Its current amount reflects the results of research on actual school district costs that was conducted in the mid 1990's. However, the foundation level of \$4,560 does not reflect any normative standard, let alone the average cost of educating an Illinois pupil of almost \$8,000 per pupil.¹⁵ Therefore, Illinois remains near the bottom of the fifty states in measures of state participation in the total funding pool.

Some of the increases in the foundation level were funded by formula changes that shifted money away from high school districts. Others have been funded by reducing or eliminating appropriations for other grant programs. The increases from 1998-2001 occurred during a period of prosperity in state-wide revenues due to a healthy economy. The test of the legislative commitment to general school funding will occur when state revenue again increases.

The Education Funding Advisory Board is considering a report by John Augenblick from the Denver consulting firm of Augenblick and Myers. The report is on a study to develop a methodology for the determination of future GSA formula foundation levels and provisions for funding at-risk students. It is part of the widespread study of Illinois school funding that may encompass general state aid and many other state grant programs in future years.

¹⁵ *State, Local and Federal Financing for Illinois Public Schools, 2000-01*, p. 36. The 1999-2000 average for all Illinois districts was \$7,483. This is the most recent year for which state data were available at the time of publication.

**General State Aid Worksheet
for the 2001-2002 Claim Payable in 2002-2003**
See isbe.net/funding/gsa.htm

District: Tax Cap Unit District

Foundation Level = \$4,560.00

DATA SECTION

1A. 2000 Adjusted Real EAV	\$160,000,000	1999-2000 Audited ADA	1,400
1B. 1999 General State Aid EAV	\$150,000,000	2000-2001 Audited ADA	1,500
1. 2000 General State Aid EAV	\$156,120,000	2001-2002 ADA	1,600
		Three-Year Average ADA	1,500
		2. ADA Used for GSA	1,600
5. 1990 Census Low Income Count	500	3. 1999 CPPRT (Rec'd in 2000)	75,000
6. District Low Income Concentration	0.3125	4. Calculation Rate	0.0300
		(Unit=.0300, Elementary=.0230, High School=.0105)	
7. Available Local Resources	\$4,758,600.00		
8. Available Local Resources per ADA	\$2,974.12	2000 Original EAV	\$165,000,000
9. Percentage of Foundation Level	0.6522	2000 Limiting Rate	0.04400
		1999 Original EAV	\$155,000,000
1997-98 Hold Harmless Base	\$2,200,000	1999 OTR	0.04500
		2000 Extension Limitation Ratio	1.040800

SECTION A - FOUNDATION FORMULA

10. Foundation Level X ADA	\$7,296,000
11. Available Local Resources	\$4,758,600
FOUNDATION FORMULA AMOUNT	\$2,537,400

SECTION B - ALTERNATE FORMULA

13. Line 9 minus .93	0.0000	14. Line 13 divided by .82	0.0000
15. Line 14 times .02	0.0000	16. .07 minus Line 15	0.0000
17. Amount per ADA	\$0.00		
18. ALTERNATE FORMULA AMOUNT	\$0.00		

SECTION C - FLAT GRANT FORMULA

19. FLAT GRANT FORMULA AMOUNT	\$0.00
(\$218 x ADA)	

SECTION D - POVERTY GRANT

If Line 6 < .10 then Poverty Grant = \$355 x Line 5
 If .10 <= Line 6 < .20 then Poverty Grant = \$675 x Line 5
 If .20 <= Line 6 < .35 then Poverty Grant = \$1,330 x Line 5
 If .35 <= Line 6 < .50 then Poverty Grant = \$1,362 x Line 5
 If .50 <= Line 6 < .60 then Poverty Grant = \$1,680 x Line 5
 If Line 6 >= .60 then Poverty Grant = \$2,080 x Line 5

20. Amount per Low Income Count	\$1,330	Hold Harmless Base	\$2,200,000
21. POVERTY GRANT	\$665,000		
22. GROSS GSA ENTITLEMENT	\$2,537,400	Hold Harmless	\$0
23. GENERAL STATE AID	\$3,202,400	GSA + HH	\$3,202,400
(Gross GSA Entitlement + Poverty)			

7 / STATE CATEGORICAL FUNDING

Introduction

Although general state aid (GSA) is distributed in greater measure to districts with lower available resources and higher child poverty counts, a substantial portion of the state's education budget is distributed in support of specific educational programs and support services. Such grants are commonly referred to as categorical grants.

Categorical grants originated in "social program legislation" to encourage districts to adopt certain programs or offer specific services. Categorical grants in the Illinois State Board of Education (ISBE) budget include those in support of special education, transportation, bilingual education and lunch and breakfast programs. They are entitlements, as opposed to competitive grants, in that districts need only offer the service and file the necessary paperwork to secure the categorical funds.

Some categorical grants (such as special education) originated as incentives to implement services that were later mandated, while others (including lunch/breakfast and transportation aid) fund services that are wholly or partially optional on the part of local districts. Most categorical grants reimburse only a portion of the costs of the programs and services they support. The reimbursement formulas for some of the major categorical grant programs are explained below.

Categorical grant funding levels in the ISBE budget vary from year to year, depending on numbers of children in need of services and on the health of the state economy. Although statutes authorizing the grants specify the levels of payment, actual appropriations are made annually by the legislature. Certain grants sometimes fall out of favor and no funds are appropriated for them for that year. In 2002-03, professional development, reading improvement, scientific literacy and school maintenance grants were among those programs

that were "zero-funded," with the money that had been appropriated for them in past years being used for other purposes.

Over the years, funding levels for mandated programs reflect a trail of broken legislative promises. The 1999-2000 school year was the first year in a decade when most or all special education claims were paid at 100 percent of the level authorized in statute. If service needs and resulting school district claims exceed legislative appropriations, grants have been reduced or "prorated," resulting in payment of only a percentage of the amounts specified in the law. Reflecting state revenue shortages, the ISBE budget for FY2003 calls for prorating of many categorical claims. There is no assurance when and if full funding will resume in future years.

Categorical funding often involves a blend of state and federal funds. Some of the blending occurs at the state level when funds from Washington are administered by ISBE. Other blending occurs at the local district level, as in the case of food service grants, where separate claims are filed to secure funds appropriated at the federal and state levels.

Major Illinois Categorical Funding Programs

The following list identifies some of the major programs and services supported by categorical grants. The FY 2003 ISBE budget reveals appropriations, or lack of appropriations, for each categorical grant specified in law. (See Page 30.)

The rules and regulations for the various categorical grant programs can be found on the ISBE web site, www.isbe.state.il.us. Careful compliance with these rules is necessary to gain the full value of the various categorical grants, and to avoid claim reductions due to audit exceptions.

- **Special Education:** Special education personnel reimbursement pays a portion of the salary of special education teachers and other eligible certificated and non-certificated staff. The reimbursement rates specified in statute are \$8,000 per full-time certificated special education worker and \$2,850 for a non-certificated worker, such as a teacher assistant or secretary. Other appropriations reimburse districts for a portion of costs for home and hospital tutoring, for special education students in more costly programs, for those in private schools and for residents of state institutions. Eighty per cent of IEP-specified special transportation for students is reimbursed by the state if appropriations are sufficient.

Special education administrators are familiar with the regulations and nuances of categorical funding for these programs. The complexity of the rules governing special education funding makes it advisable to consult them in planning and administering these services, including hiring and deploying personnel and maintaining student records, so as to maximize the amount of state reimbursement for each position.

- **Bilingual Education:** The amount of a district's grant depends on the size of its bilingual population, as determined by an annual student census.
- **Transportation:** Reimbursement for student transportation over 1.5 miles or from areas designated as hazardous is paid on a equalized sliding scale related to the district's tax base. A higher percentage of costs is reimbursed to poorer districts; a flat grant of \$16 per reimbursement-eligible pupil transported is paid to the wealthiest districts. Rules for transportation reimbursement, including procedures for designating areas as hazardous and for parents to secure reimbursement for their costs for pupil transportation, are available from ISBE's web site, along with a wealth of information on organizing and operating a school transportation program.
- **Grants for such purposes** as school safety, reading improvement, and building construction and maintenance are provided for in the Illinois School Code. Appropriation levels have varied or disappeared for some special purpose grants as state revenues have come under pressure. Consult the annual ISBE budget for current

funding levels.

- **State funds are budgeted** for a number of educational initiatives, including early childhood education, educational technology, extended day programs, teacher mentoring, Hispanic student dropout prevention, vocational education and start-up of charter schools. Expenses for learning standards and state assessment development and administration are also paid from the ISBE budget.
- **"Loans" in the form of textbooks** for public and private school students is one of the most politically popular lines in the state education budget.
- **School lunch and breakfast** program grants supplement larger amounts from federal funds.

The Future of Categorical Grants

As long as categorical grants in support of specific programs and services have existed, there has been debate as to whether such grants support or oppose equitable school funding. Proponents of categorical grants point to the need to encourage districts to offer innovative programs which, as in the case of special education, sometimes become legal mandates. Opponents point out that if appropriations for categorical grants were added to that for general state aid, the foundation level would be substantially raised, and the extra funds would be distributed to districts with the least available local resources.

The political reality has been that legislators from the Chicago area tend to vote in support of categorical appropriations which, in total, often exceed their school districts' funding from general state aid. Special interest groups representing parents and employees join school districts to lobby vigorously in support of special education and other categorical appropriations.

The categorical equity question is complex, and can be illustrated by examining the impact of the special education grant on districts of disparate wealth. The personnel reimbursement rate does not vary with the wealth of the district, its salary schedule or the salary of the individual worker. It is the same for a low paying rural district where the starting salary may be \$24,000 and the average salary \$30,000, as in the wealthy high school district with a starting salary of \$40,000 and an average salary of \$75,000.

Summary of 2002-2003 ISBE Budget

APPROPRIATIONS FROM GENERAL REVENUE FUND

Initiatives	Final appropriation \$ in thousands	% of general revenue	% of all fund expenditures
General state aid (a)	\$ 3,252,854.1	53.2%	39.6%
Early intervention	64,447.3	1.1%	0.8%
Gifted reimbursement	19,000.6	0.3%	0.2%
Charter school grants	7,428.2	0.1%	0.1%
Textbook loan program	29,126.5	0.5%	0.4%
District consolidation costs	1,669.4	0.0%	0.0%
Lunch and breakfast	21,464.7	0.4%	0.3%
Special education (b)	919,032.1	15.0%	11.2%
Regular, vocational transpn	219,908.5	3.6%	2.7%
Standards, assessment	26,915.2	0.4%	0.3%
Educational personnel (c)	21,962.0	0.4%	0.3%
Reading and math	80,655.3	1.3%	1.0%
Birth through eight prog.	189,391.8	3.1%	2.3%
Academic difficulty	124,952.6	2.0%	1.5%
Learning technology	25,025.0	0.4%	0.3%
Career preparation	60,958.4	1.0%	0.7%
Regional Office operations	22,836.3	0.4%	0.3%
SBE administration	25,000.0	0.4%	0.3%
Targeted initiatives (d)	20,975.7	0.3%	0.3%
Downstate and Chicago teacher pensions	984,495.7	16.1%	12.0%
Total General Revenue Fund	\$6,118,099.4	100.0%	74.4%

OTHER FUND BUDGET ITEMS

Description	Budget \$ in thousands	% of all fund expenditures
School infrastructure fund	\$ 800.0	0.0%
Technology revolving loans	50,000.0	0.6%
Illinois future initiatives	5,000.0	0.1%
Driver education	16,450.0	0.2%
State pension fund	50,765.0	0.6%
Other funds	7,335.0	0.1%
Federal program admin.	36,417.7	0.4%
Federal program grants	1,902,962.0	23.2%
FY 02 textbook reappropriation	30,192.1	0.4%
Total Other Appropriations	\$2,099,921.8	25.6%
TOTAL — ALL FUNDS	\$8,218,021.2	100.0%

Notes:

(a) includes hold harmless and block grant

(b) Includes transportation

(c) Includes teacher education, mentoring, teacher academy

(d) Includes schools and services for visually impaired, hearing impaired and other

Supporters of personnel reimbursement point out that \$8,000 reimburses a higher proportion of the special education teacher's salary in the lower paid district, and thereby serves equity in the same manner as the equalization provision of the general state aid formula. Critics point out that the class size served by the teacher is likely to be larger in the poorer district and therefore, on a per child basis, the grant is inequitable. They also assert that the wealthy district is capable of providing greater support for special education from its own tax base, which would leave more funds to support the underserved special education children and other programs in the poorer districts.

What if the grant were paid on the basis of special education enrollment instead of personnel? The issue of ability to pay would still be present, and critics of such reimbursement programs in states where per pupil grants are used point to increasing rates of identification of special education children.

The issue of special education funding is likely

to come to the forefront of the school funding debate during the coming years as inclusion and other new service delivery models are implemented. Recent changes in the Federal Individuals with Disabilities Education Act (IDEA) are expected to require many states to eliminate reimbursement systems where the amounts paid to local districts depend upon the child's placement. Certain Illinois special education categorical grants may be affected by these IDEA provisions.

Federal support levels for special education are also coming under political examination, especially as competition for state funding resources has intensified. A 40 percent level of federal funding was established as a goal during the early years of the federal mandate. Other budget priorities and the rapid growth of special education service categories and enrollments have combined to result in a current federal funding level of less than 10 percent. As a result, supporters of special education in Illinois are becoming more active in representing the state's needs in Washington.

8 / FEDERAL AND GRANT REVENUE

Background

The history of federal government support of public education begins in the early years of the Republic, with land allocations for public schools provided in the Northwest Territories and later land grants for public universities. The early twentieth century saw the emergence of federal support for vocational and agricultural education, the establishment of the Federal School Lunch program following World War II, and grants for science education and teacher training during the "space race" in the 1950's and 1960's.

The 1970's saw a burst of "social legislation" with profound consequences for school programs, budgets and operations. Some of this legislation, such as student records law, was confined to regulating specific aspects of school operations. Other initiatives included both regulatory and funding aspects. Notable among the funded programs have been those for handicapped children, preschoolers, children of poverty, immigrants and non-English speaking students. Meanwhile, many of the older funded programs, such as vocational education and school lunch, continued or expanded in scope and federal funding.

Education has come under an increasing barrage of criticism in the past twenty years, while the focus of federal funding has widened to include national goals and student achievement. Grants to states, curriculum study groups, foundations, think tanks and assessment agencies received new emphasis, sometimes at the expense of funding to individual school districts. While not directly visible to the public school financial administrator, the impact of this "reform seed money" has been widespread in its effect on public attitudes towards education as well as on the curriculum of the schools.

Illinois schools received approximately \$1.87 billion in federal funds in 2000-01, representing 10.4 percent of all revenues. Over the past twenty years

the percentage of Illinois school funding has fluctuated in a narrow range between just over 7 percent to just over 9 percent, exceeding 10 percent only in 1979-80 and 2000-01.¹⁶

This chapter summarizes the federal education budget and discusses techniques and resources to assist the administrator in matching available federal and other outside funding sources with the programs and priorities of the school district.

The Federal Education Budget

The current administration has undertaken major education initiatives, with considerable impact on school operations and funding, especially for programs supported by federal and state categorical grants. Therefore, the administrator who wishes to keep up to date on current and prospective federal funding will need to consult the education press, web sites and other sources of current information. Two sources of information on grant programs and other developments are the Catalog of Federal Domestic Assistance at www.cfda.gov and the web site of the United States Department of Education at www.ed.gov. Consult the web sites of other agencies for information on programs under their jurisdiction, e.g. www.usda.gov for information on federal lunch and breakfast programs, and www.hhs.gov for information on early childhood and childcare grants.

The *Illinois Program Accounting Manual*, including its periodic updates, and the ISBE budget form for the current year are other useful references to identify programs and services that

¹⁶ *State, Local and Federal Financing for Illinois Public Schools 2000-01*, p. 19. It is difficult to interpret differences in percentages of federal funding among the states, due to the wide variation in funding to areas which are heavily impacted by military bases and other federal employers, and where demographic characteristics differentiate funding for poverty and bilingual funding.

receive federal funding. Keep in mind that the federal fiscal year runs from October 1 through September 30. Thus, federal fiscal year 2003 began on October 1, 2002.

Portions of the fiscal year 2002 federal education budget are summarized below, according to the major divisions of that budget. Some of the appropriations targeted for specific programs and populations would be folded into block grants or diverted to other purposes in the administration's proposed budget for fiscal year 2003.

Matching Needs to Outside Funding Sources

Several questions must be asked when researching outside funding for an educational pro-

gram or support service. The questions may be educational, political, legal, managerial, financial, or any or all of these. Some can be answered by a careful reading of the information contained in the Request for Proposal (RFP) or other government bulletins that describe the grant program. Others require consultation with the leadership, faculty and governing board of the school district.

Involvement of the school district's business administrator at the early stages of consideration and in preparing an outside funding proposal is desirable. Such consultation will assure that, if the proposal is successful, the money will be spent and accounted for according to the terms of the grant and other applicable laws.

The first step for an administrator who is considering applying for a grant is to define and

SELECTED FEDERAL EDUCATION APPROPRIATIONS¹⁷

Program Area	Types of Programs	FY 02 Appropriation
Elementary and secondary education	Disadvantaged (Title I) Impact aid Migrant education School improvement Indian education	\$ 21,448,241,000
Bilingual and immigrant education	Bilingual state grants	665,000,000
Special education and rehabilitation	State grants, national activities and research	11,784,931,000
Vocational and adult education	State grants, national programs, tech-prep and adult literacy	1,934,060,000
Student financial assistance	Pell grants, Perkins loans and other programs	12,285,500,000
Research and statistics	Includes National Assessment of Educational Progress	443,870,000
Early childhood programs (Health and Human Services Department)	Head start, immunization, child care block grant	9,297,576
Indian education (Department of the Interior)	Bureau of Indian Affairs schools	545,133,000
Youth job training (Department of Labor)	Includes Job Corps	2,811,817

¹⁷ Information in this table is taken from a federal budget summary in *Education Week*, June 19, 2002, vol. XXI, Issue 41, pp. 26-27.

answer key questions. These questions are applicable whether the funding is to come from federal, state or private sources, such as a foundation. Listed below are representative questions; the remaining ones will be “situational” in nature, but equally important in deciding upon, preparing and administering the funded program. Take time to develop and answer the questions appropriate to the situation.

- **Do we want to do this?** Is the purpose of this funded program one that meets the educational needs of the district or social needs of the student body? Does it complement or conflict with our present program? Will it require that student time be devoted to the funded activities? Are the school day and/or year to be lengthened and will the grant pay the extra costs? If no more student time is to be added, what programs or services are to be discontinued? In short, how do the funded activities impact the “big picture” in the school district?
- **Who else in the school system may have a stake in the decision?** A funded program for a small amount of computer equipment in a single school will have fewer ramifications (if it doesn’t cause system problems) than would a program to change the service delivery model for gifted children in all of the schools. Although the single school grant might contribute to inequity of computer resources among the schools, it is not as pervasive or probably as controversial as a district-wide initiative in a “hot button” topic such as gifted education.
- **What local decision-makers must sign off on the proposal?** The grant-seeking administrator requires a sensitive antenna to determine who must be informed and consulted before a grant application is prepared. Topics with district-wide implications may require involvement of the superintendent and discussion and approval by the board of education. It is not always possible for the beginning administrator, especially, to see the wider ramifications of what seems like a small, contained program-improvement proposal. Therefore, informing upper levels of administration of intended grant-seeking activity is good practice.
- **Can we buy what we need with the grant funds?** If we need services for students, does the grant permit them, or is it limited to training

and start-up expenses? Are matching local expenses required, and if so, can the budget support them? Are such items as equipment, travel and consultants necessary and, if so, are they permitted or limited? Who will run the program, and are there sufficient funds to support the cost of its administration and other overhead, unless the school district is to support these expenses?

- **How long will the grant last, and might it oblige us to expand or continue a program or service after the outside funding has ended? If so, can we afford it?** While a pledge of continuation may not be contained in the grant terms, a grant-seeking school district must consider the political ramifications of discontinuing or limiting a successful program when the grant funds run out.
- **Is this an “entitlement” or a “competitive” grant?** Entitlement grant funds are commonly distributed on formula related to the number of eligible pupils. Lunch and breakfast and Title I Basic grant programs are examples of entitlements. While application paperwork and accounting reports must be filled out, the supporting narrative of objectives, activity descriptions and budget detail are usually substantially less cumbersome than those for competitive grants. Examine the program information on agency web sites and application materials to determine up front the nature of the grant program in this respect.
- **What are our chances of getting this money?** If the grant is competitive, what percentage of applications has been funded in recent grant cycles? Is there a pattern of types and locations of funded projects, and do the school district’s proposal and demographics match those of successful districts? Does someone in the district know the people who will read and score the proposals, their interests and predilections? It is good strategy for the grant writer to volunteer to serve as a reader for the grant-awarding agencies to learn first-hand how the game is played. One will not, of course, be allowed to read applications for grant programs for which one’s district is applying.
- **Is the district able and willing to abide by the terms of the funded program?** Federal RFP’s and the associated regulations have the force of law, and mispending of government

funds can lead to financial sanctions against the district and professional embarrassment, or worse, for the offending grant administrators. Termination of a grant and repayment of mis-spent money are among the penalties for violating grant terms. Items purchased with grant funds may be considered federal property, and even the process of purchasing them may be influenced by federal laws. Federal as well as state grants are routinely audited, and compliance or non-compliance with their terms is noted on the district's accounting reports, which are sent to boards of education and government agencies and are open to public inspection.

Information on federal and other grants, as well as federal budget developments, is regularly published in *Education Week*, www.edweek.org. Keeping current on non-governmental sources of

grants is necessary, since grant-making agencies and their programs undergo frequent change. Use of specialized newsletters and Internet search engines will elicit information on government and private grants, updated as new programs come to be and old ones expire. One useful site is www.finaid.org

Information on foundation grant programs can be accessed from the web sites of the various foundations, following a search through the web or library reference books to determine those foundations currently funding public education initiatives. While some foundations consider applications from throughout the United States, others have regional emphases. A good source of foundation and other private philanthropic information is the *Chronicle of Philanthropy*, www.philanthropy.com.

9 / LOCAL FUNDING SOURCES

Background

Local funding sources contribute just over half of Illinois public school revenues.¹⁸ However, in districts with relatively rich tax bases, which receive minimal general state aid, the percentage of local funding can run 80 percent or more. While most local revenue consists of property taxes, schools state-wide rely on many other forms of locally raised money to fund their educational programs and support services.

Some local funding sources are unrestricted in that they can be applied to any operating fund at the discretion of the local board of education. Most of the interest earned on bank balances and investments is unrestricted. Other sources are restricted and must be applied to the fund and purpose for which the revenue is collected. Examples are fees collected for school lunch and transportation.

This chapter identifies the major categories of local revenues and discusses the uses and, where applicable, some of the legal parameters in their administration. The ISBE Budget Form and the *Illinois Program Accounting Manual* provide a useful catalog and index to available local revenue sources. Specific state statutes and administrative regulations may also apply to the administration of certain revenue programs. ISBE regulations and/or the school attorney should be consulted for guidance when questions or challenges occur.

Managing Local Revenue Sources

1. Tuition is collected by districts for non-resident students. The district is required by law to charge tuition to non-resident students, excepting special education students or others in a joint program with other districts. The tuition rate is established by ISBE based on the receive-

ing district's actual expenditures for the previous year, a statistic known as the per capita tuition cost. Whether to accept non-resident tuition students or to waive tuition for future residents are policy decisions of the local board of education. Restrictions can be placed on non-resident enrollments, but some attorneys advise, to avoid allegations of discrimination, that any restrictions be based on "applicant-neutral" factors such as class size, and not on the individual characteristics of non-resident applicants.

- 2. Summer school tuition** rates are established locally based on the actual costs of salaries, supplies, building use and other costs associated with the program. A separate fee may be charged for transportation. No fee may be charged for special education students whose summer services are included in their individual educational plans. Limited state funding is available for some summer school programs.
- 3. Districts or cooperatives** that operate special education programs in which students from several districts are enrolled receive tuition paid by the student's home district, based upon the cost of providing the class and related services to the non-residents.
- 4. Inter-district agreements** establishing agencies for vocational education and other programs provide formulae within state regulations for students' home districts to reimburse the cooperative or operating district for the cost of the program. Districts that operate adult education programs collect tuition related to the costs of adult classes.
- 5. School districts outside Chicago may rent or sell textbooks** to students unless the voters of the district have authorized free textbooks in a referendum. Therefore, a profusion of book

¹⁸ *State, Local and Federal Financing for Illinois Public Schools, 2000-01*, p. 19.

and material fees exist. Such fees are widely resented, often difficult to collect, and awkward to explain to parents, especially to former residents of states where textbooks are provided free of charge. With the costs of printed materials rising faster than school revenues from taxes and state aid, book fees in most districts have shown a steady trend of increase. State law requires that a district waive book and other mandatory fees for parents who cannot afford them.

6. Districts that provide close-in transportation at parent option commonly charge fees related to the cost of providing this service. The amount of the fee is determined by the board of education. Few districts have the tax base to provide free or low-cost optional transportation. Moreover, the tax cap law has required districts to lower transportation tax rates to produce higher rates in their educational funds. With the costs of vehicles, drivers and operation rising at a greater rate than the cost of living, transportation fees have responded accordingly, with fees as high as several hundred dollars per pupil charged in some areas.

7. Fees for participation in extracurricular activities, sports programs, music groups and other "non-academic" programs have become increasingly common as the property tax cap has spread throughout the state. Activity participation fees are regarded as a necessary alternative to discontinuing popular programs. It is wise to consult the school attorney before initiating a fee for classes and activities that fall within the legal parameters of the school day. Admissions to sports and other school events are school revenues and are established by local policy, as are the regulations regarding "booster clubs" and fund-raising events in support of specific activities.

8. Fees for breakfast and lunch programs are established to cover the operating costs of the program, which may also include related costs for cleaning and maintaining food preparation equipment and spaces. Districts that participate in federal and state reimbursement programs establish their meal fees to cover costs not covered by government reimbursements. The highest rate of reimbursement is paid for meals served to low income students, who are

eligible for a free lunch or breakfast. These reimbursements may exceed the incremental cost of preparing the meal. Therefore, a higher percentage of low-income participants will enable lower fees for student-paid meals. While boards of education may opt to subsidize meal programs, the costs must come out of the educational fund. Therefore, most districts will keep a close eye on food service programs to assure that they are self-sufficient from fees and reimbursements.

The American Service Association, www.asfsa.org, has valuable resources for management and cost control of breakfast and lunch programs. Providers of contract food services are familiar with the regulations, funding sources and cost containment measures for school meal programs, which can also be found on the State Board of Education web site, www.isbe.state.il.us.

9. Interest is earned from investment of school funds until they are required to be expended. Most interest revenue is unrestricted and can be applied to any fund. The term of investments may range from one day to a year or more. The school business manager or treasurer must plot out, on a monthly basis, the expected flow of revenues and expenditures and develop an investment strategy that assures that funds are available when needed, while maximizing safety and interest yield. Illinois law governs investment of school funds. Legal categories of investment of school funds include:

- United States obligations guaranteed by the full faith and credit of the government
- Obligations of U.S. government agencies, as defined in the state law
- Accounts, certificates of deposit, and other direct obligations of banks
- Certain short-term obligations of large corporations
- Eligible money market mutual funds

Board of education policies also govern investments, and those policies may further restrict the investment of school funds, confining them to obligations of the U.S. government, bank instruments, and possibly money market funds. Regular review of investment policies and practices is essential, since opportunities for invest-

ments are numerous, and the options may include instruments that do not meet legal requirements for investment of school funds. School attorneys and auditors can provide model policies and other guidance in this area.

Investment should be undertaken with great caution and with knowledge of money markets and the characteristics and risks of each investment instrument. Public officials who do not comply with the terms of the Investment of Public Funds Act may be personally liable for losses related to such investments. An investment consultant, independent of any bank or investment pool, is a valuable resource to assist districts in developing investment strategies with attention to safety and yield. Find one with a proven track record.

While accurate forecasting of interest rates is difficult at best, certain risks can be avoided by attention to the safety of principal. Bank deposits or certificates of deposit that exceed the federal insurance limit should be backed by collateral, such as U.S. government securities dedicated only to the individual school district's deposit, held by a third party and at least equal to the current market value of the investment. Collateral that did not exist, was dedicated to several investors, or was insufficient in amount, has caused grievous losses to school districts when banks or investment pools have folded.

When interest rates increase, the market value of investments decreases; if the school requires the funds at such a time, it may suffer a loss of principal when term investments are sold prior to maturity. Districts or investment pools that hold commercial paper are also subject to losses resulting from misfortunes of the issuing corporation. Commercial paper and such instruments as repurchase agreements require sophistication beyond that found in most school district business offices.

Extraordinarily complicated federal regulations control the yield to the school district from

investments of borrowed funds and school construction grants. A law firm specializing in such law is an essential guide to the legal investment of these funds, lest the Internal Revenue Service become the unintended beneficiary of a share of the investment income.

The size of a district's fund balances is a function of its budget revenues and expenditures over a period of several years. The topic of fund balance size is often hotly debated by boards of education, especially when tax levies are being considered. School auditors can assist in relating a district's fund balance to those of similar districts and to its cash flow needs.

10. **Short-term rental of school facilities** and sometimes long-term leases of surplus space provide additional revenue to many schools. Governed by local board policies and state law, rental income is unrestricted, but is commonly applied to the district's operations and maintenance fund for building upkeep. Rental rates and eligibility policy are often a hot topic at school board meetings; courts have recently limited local boards' ability to approve and disapprove organizations wishing to rent facilities.
11. **Some school districts have established tax-exempt foundations** for receiving gifts from residents, businesses and other sources. Foundations are governed by a separate board from that of the district, and specific federal and state legal requirements apply to their governance and accounting. Consultants specializing in establishing school foundations can assist in their formation. It is also useful to talk to districts that have established successful foundations.

School Business Affairs, a monthly publication of the Association of School Business Officials International, www.asbointl.org, offers articles on management of support programs, including transportation and food services, investment practices and other financial management topics. Also consult the ISBE web site for valuable information.

10 / BUDGETING AND PROJECTING REVENUE

Accurate projections of near and long-term revenues are an essential accompaniment to expenditure budgeting. If revenue projections are overly optimistic, budgeting decisions for the near-term may not hold, programs will be compromised or interrupted, and staff and community disappointments will take their toll on the organization's morale and confidence in its leadership. Overly pessimistic revenue projections discourage staff initiatives to improve the program and can embarrass the board and administration by raising issues of competence and bad faith, especially in years when collective bargaining occurs.

The budgeting and projection techniques described in this book reflect a cautious state of mind that seeks to avoid unpleasant surprises by projecting revenues on the low side and projecting expenditures on the high side.

This chapter discusses strategies for budgeting major sources of revenues for the succeeding year and for projecting them for the years beyond. Revenue budgeting is a continuous process. The first short and long-term revenue estimate should be prepared in the fall, thus providing a premise for expenditure budgeting. Budgets can be adjusted as new information becomes available on property assessments, legislative action, board of education decisions, grant awards and other revenue-determining factors.

Property Taxes

Budgeting and projecting property tax revenue begins with the latest information on current year receipts. In tax-capped districts revenues for the following year can be estimated by multiplying current year receipts by the cost of living adjustment used for computing the extension limitation under the tax cap. If information from the assessor indicates new property growth, tax revenue from that

property can be added to the cost-of-living-based projection.

In reassessment years projections of tax base changes should also consider the effect of changes from the general reassessment. However, increases that exceed the tax cap limit will not generate additional revenue. (See Chapter 4 on "Living with the Tax Cap" for information on budgeting property taxes when a trend of decreases in the assessed valuation exists.)

If a district is not subject to the tax cap, property tax revenue for the coming year will be the product of individual fund tax rates and the following year's property tax base. Therefore, it is important in the fall to determine the district's new equalized assessed valuation if it is available, or to estimate it if it is not. The assessor's office and local building officials can assist in projecting changes in the tax base.

Each fund's tax revenues must be analyzed separately. If the fund's tax rates are not at authorized maximums, an opportunity may exist to increase the levy for that fund if required to meet expenditures. The following year's revenue budget will reflect the increase, but only if the board of education levies the additional taxes in December.

Long-term projections of tax revenue are commonly done by taking a three-to-five year trend and projecting the rate of change into the future. It is especially important in long-term tax revenue projections to adopt a conservative stance, especially with respect to the prospects for new construction in the district. The real estate market is volatile and highly susceptible to economic factors such as interest rates. Even though the best information and opinion on real estate growth may have been consulted, it is risky to bet the future of the school program on overly optimistic estimates of property tax growth.

A set of tax revenue projection spreadsheets,

allowing manipulation of alternative assumptions for such variables as assessment levels, cost of living adjustments, tax rates and new construction, is an essential tool to document and explain tax revenue projections. In preparing projection reports for the board of education and other readers, the financial administrator should boil the complex spreadsheets down to simple tables, brief explanatory narratives and simple graphs. A sample revenue projection appears in *Table 5* on page 41. Alternative projections should be developed under different “what if” assumptions of revenue growth.

The chapter on the property tax (see chart on page 8) identifies the key agencies that can provide information on tax revenues. Consultants from firms that underwrite school bond issues may help develop short and long-term tax revenue projections. They are especially useful in helping the financial administrator deal with the complexities of the tax cap formula.

State Revenues

Corporate personal property tax replacement revenue is a function of state tax collections, which rely on the health of the Illinois business economy. It can be budgeted and projected based on the trend of recent years.

General state aid budgets for the coming year, as well as long-term, can be conservatively projected by applying future enrollments and tax base estimates to the applicable formula, using the current foundation level. Final budgets can be adjusted as legislative actions in the spring warrant.

Districts whose tax bases and/or enrollments, including poverty counts, are undergoing change can expect state aid revenues to undergo larger increases or decreases than occur when enrollments and equalized assessed valuations are relatively stable. Take special care in projecting state aid if the district is on the verge of changing from one formula variation to another, since such changes can produce larger increases or decreases than would be expected from enrollment changes. ISBE staff can assist in budgeting general state aid.

Categorical state aid budgets for the coming year reflect the fact that many forms of aid, including transportation and most, but not all, special education programs, are based on programs and expenditures for the current year. Therefore, budgeting categorical aid begins with preparing and

analyzing present year preapproval and claim forms to compute the maximum entitlement under the law for reimbursement in the coming year.

The second step is to estimate whether the entitlement will be paid in full. Research the recent history of each grant program to determine the likelihood of full funding or prorating of the entitlement amount, especially in reimbursement programs for special education and transportation. Special education directors are especially helpful in this respect. Keeping a report of entitlement amounts for each claim versus payment schedules and amounts received is a valuable tool in budgeting future categorical aid.

Legislative actions in the late spring can create, expand, contract or kill specific categorical programs. Therefore, monitoring legislative actions on the ISBE budget is necessary for accurate short-term revenue budgeting. Current information on legislative developments in Springfield can be obtained from the web sites of the various professional and school board management associations. Especially useful are the Illinois Statewide School Management Alliance reports, which can be accessed on the web site of the Illinois Association of School Boards, www.iasb.com, as well as those of the various administrator associations. Another helpful source on legislative developments, including links to copies of bills, is ED-RED, a suburban school district lobbying consortium, www.ed-red.org.

Projecting long-term categorical aid involves trending, adjustments for probable and known changes in state appropriation levels, and allowances for increases and decreases in program staffing levels (e.g. the number of special education teachers, bilingual students or other variables affecting categorical aid.) Analyzing each category separately will lead to the most accurate projections.

Other Revenues

Federal programs depend on congressional appropriations, which are determined for fiscal years beginning October 1. The quality of information available for school budgets depends, therefore, on the timing of final action on the federal budget. Since the federal and school district fiscal years do not coincide, it is common for school budgets to include funding from two federal fiscal years. Grant administrators at the State Board of

Education monitor the federal budget process and provide estimates for school budgeting purposes. They should be consulted for questions on specific programs.

Long-term projections of federal and other grant revenues must take into account the nature of the grant program. Conservative revenue projections for entitlement programs can be constructed from current funding levels and projected program enrollments. However, if a grant program expires at the end of a given year, that fact must be considered in the overall projection of outside revenues for the long-term period, lest the total be inflated by money that will not be forthcoming after the end of the grant period. In some cases, the cash flow

from the grant will continue for a few months into the year following its conclusion, as final expenditure claims are filed and paid.

Administrators of programs that are supported by federal and state categorical grants, including special education, bilingual education and Title I programs, must necessarily form their own information networks and are valuable sources to the financial administrator for budgeting information.

Most local funding sources, such as book and bus fees, special education tuition, summer school tuition and meal fees, depend on locally determined actions and enrollment and participation levels. Accurate following-year budgets for these items can first be prepared based on trending of

Table 5 – Sample Historical and Projected Revenue Report

EDUCATION FUND HISTORICAL REVENUES (\$ in thousands)

SOURCE	Year 4	Year 3	Year 2	Year 1	Last year	Current budget	% increase	Avg. % Incr.
Taxes	5000	5200	5408	5624	5765	5909	18.2	3.6
CPPRT	200	206	212	219	225	227	13.7	2.7
Interest	345	325	300	250	200	175	-49.3	-9.9
Tuition	200	210	221	232	243	255	27.6	5.5
Fees, lunch	400	420	441	463	486	511	27.6	5.5
State Aid	1100	1144	1190	1237	1268	1300	18.2	3.6
Federal Aid	300	312	324	337	346	355	18.2	3.6
Other	50	53	55	58	61	64	27.6	5.5
TOTAL	7595	7870	8151	8420	8594	8796	15.8	3.2

Revenues do not include a \$4 million transfer from the Working Cash Fund at the end of Year 4.

EDUCATION FUND PROJECTED REVENUES (\$ in thousands)

SOURCE	Current budget	Projected percentage increase per year	Next Year	Year 2	Year 3	Year 4	Year 5
Taxes	5909	3	6086	6269	6457	6651	6850
CPPRT	227	2	232	236	241	246	251
Interest	175	-10	158	142	128	115	103
Tuition	255	5.5	269	284	299	316	333
Fees, lunch	511	5.5	539	569	600	633	668
State Aid	1300	3	1339	1379	1421	1463	1507
Federal Aid	355	4	369	384	399	415	432
Other	64	5.5	68	71	75	79	84
TOTAL	8796		9059	9334	9620	9918	10228

These revenue projections are combined with expenditure projections in Chapter 22, which discusses analysis of the district's financial position as part of its "big picture." In particular, see Table 15 on page 90.

recent years. They are updated later in the year, following board of education action on fee levels and current enrollment and program participation projections for the coming year. Long term budgets for these sources are also developed by trending.

Interest income is a function of the school district's average monthly cash balances and available rates on investments. Interest budgeting for the coming year begins with cash flow projections that take into account both income and expenditures for the year. A surplus budget will tend to increase interest income; an unbalanced budget will decrease it. Since it is difficult for even sophisticated economists to predict future interest rates, use of current rates applied to projected balances is a common short-term budgeting technique. Long-term interest projections are developed by the same method. Since an expenditure projection must also be prepared, interest income budgets are often adjusted in the final days before the budget is presented for discussion and adoption.

Projecting the future is an art as much as a science, and intuition plays an important role. A data-

base on the variables that influence major sources of revenue is an invaluable tool for short and long-term revenue budgeting. A detailed history of increases and decreases in each revenue source over past years greatly facilitates the use of trending in revenue budgeting. Creation of such a database and trend history, if it does not exist, can be a major contribution of a financial administrator to a school district's planning process. Past year audit reports are good places to look for historical information on both revenues and expenditures by categories.

The financial administrator's own network of colleagues can provide assistance with the substance and format of financial projections, and it might prove helpful to review short and long term budget projections from nearby districts, especially those similar in enrollment and property tax trends. Not only can specific calculation assumptions be compared, but ideas can be gained for formats for presentation and analysis of information to the public and board of education.

11 / BORROWING OPTIONS

Introduction

Rare is the school district that does not need to borrow money at some time. Illinois schools enjoy many short and long-term credit options. Borrowed funds may be used to help finance educational programs, new facilities, repairs to older buildings, equipment for classrooms and offices, and school buses. Sometimes the borrowed funds are needed for only a few weeks to cover a temporary cash shortage until property tax revenues arrive. Bonds to finance the purchase of land and buildings may be repaid up to 20 years.

This chapter introduces the most common borrowing options and their uses. While the authority for borrowing rests in Illinois law, complex federal laws and agency regulations govern certain aspects of the sale as well as the investment and use of the proceeds. Since regulations governing borrowing change frequently, schools must consult with financial advisors and attorneys specializing in public finance as soon as the need to borrow funds becomes apparent.

It is a long-standing principle of local government, including school districts, that the public has a voice and/or vote before a government agency incurs debt, especially debt to finance a major public project such as a school building. When a local government issues debt, it is pledging the "full faith and credit" of the property within that district for its repayment.¹⁰ If necessary, it can levy taxes up to the value of each property owner's real property to repay its debt. Referenda or hearings prior

to sale of bonds provide the public with a vote or voice before their property is pledged for repayment.

Illinois law establishes limits on a school district's bonded indebtedness. The limit is calculated in relationship to the district's equalized assessed valuation (EAV). The general limit for a separate elementary and high school district is 6.9 percent of its EAV. A unit (K-12) district may borrow up to 13.8 percent of its EAV. Certain "growth districts" may borrow a maximum of 15 percent of EAV, if special circumstances, spelled out in law, are present. Bonds sold for the purpose of establishing an insurance reserve or payment of a tort judgment are excluded from the debt limit.

Public borrowing falls under federal regulations enforced by the Securities and Exchange Commission and the Internal Revenue Service. These regulations govern the information that must be disclosed to potential buyers, the amount of the borrowing and the investment of the proceeds prior to their expenditure. Compliance is necessary to sell the debt as exempt from federal income taxes to the buyer. Tax exempt status enables the school district to pay a lower interest rate than if the bonds were taxable. In some instances, however, it may benefit the district to sell the bonds on a taxable basis. Public finance law firms guide administrators and boards of education through this legal maze, for rigorous proof of compliance with state and federal laws is necessary before the sale of a debt issue can be "closed" and the funds made available to the school district.

Commonly Used Borrowing Options

The most commonly used borrowing options are described on the following pages. A fuller description of each option can be found in *State, Local and Federal Financing for Illinois Public Schools*. Public finance law firms, such as

¹⁰ There are exceptions, notably "revenue bonds" issued by local governments to be repaid from receipts from the facility (such as a skating rink) built with the bonds, rather than from property taxes. Schools rarely use this form of debt. They are considered a riskier investment for the borrower than "full faith and credit" bonds that are backed by property taxes.

Chapman and Cutler, *www.chapman.com*, can provide additional information, as can the public finance consultants who assist districts in planning and selling debt issues.

Interfund Loans and Permanent Transfers

A district may be able to borrow from itself, avoiding the expenses of issuing and paying interest on debt. Surpluses in some funds can be transferred or temporarily loaned to other funds as specified by state law. However, not all interfund transfers and loans are legal. The charts below indicate with an "A" which interfund transactions are allowed and with an "NA" those that are not allowed.²⁰ Board of education approval is required for an interfund loan or transfer, and a public hear-

ing is required for certain transfers. Except for the Working Cash Fund, all loans must be repaid to the loaning fund within three years.

Short-term Borrowing for Operating Expenses²¹

These instruments are designed to provide short-term cash to cover expenditures when cash balances are low and expected property taxes and other revenue have not been received. The need for them must be proven by financial projections as specified in federal law. They do not require public

²⁰ *State, Local and Federal Financing for Illinois Public Schools, 2000-01 (SLFF)*, pp. 56-58.

²¹ The summary of the provisions of short and long-term borrowing instruments is drawn from *SLFF*, pp.61-70, the memorandum "Borrowing for Illinois School Districts," issued by Chapman and Cutler, May 1, 2001, and a presentation by Elizabeth Hennessy of William Blair & Co. on February 25, 2002.

Permissible Interfund Loans

LOANING FUND	RECEIVING FUND			
	Education	Oper. & Maint.	Fire & Safety	Transportation
Education	-	A	A	A
Oper. & Maint.	A	-	A	A
Fire & Safety	NA	NA	-	NA
Transportation	A	A	A	-
Working Cash (a)	A	A	A	A

(a) A tax levy must be made for the receiving fund in the year the loan is made. The loan must be repaid upon collection of anticipated taxes.

Permissible Permanent Interfund Transfers

SOURCE FUND	RECEIVING FUND			
	Education	Oper. & Maint.	Fire & Safety	Transportation
Education	-	A	A	NA
Oper. & Maint.	A	-	A	NA
Transportation	A	A	-	NA
Working Cash balance (a)	A	NA	NA	A
Working Cash interest (b)				
Fire & Safety (b)				
Bond & interest (b)				

(a) Includes outstanding working cash loans to other funds.

(b) Refer to the *Illinois School Code* for specific provisions.

A = Allowed

NA = Not Allowed

approval in a referendum, nor do they provide additional money to the district. Rather, they speed up receipt of money to which the district is already entitled. Frequent use of these forms of debt indicates current or impending financial difficulty.

- **Tax anticipation warrants** are issued against taxes levied, but not yet collected, and are repaid from the taxes levied for the particular fund either upon their receipt or on a specified maturity date. Up to 85 percent of the anticipated taxes may be borrowed.
- **General obligation tax anticipation warrants** are repaid on a specified date through a special tax levy, which is subtracted from the tax rate for the applicable fund.
- **Tax anticipation notes** are similar to general obligation warrants but count against a district's debt limit. A longer repayment period may be possible.
- **State aid anticipation certificates** may be issued against state aid due for the year, subject to offsets and limits related to the working cash fund and tax anticipation borrowing.
- **Personal property replacement tax notes** are similar to state aid anticipation certificates and are payable from replacement taxes when received.
- **Revenue anticipation notes** are issued in anticipation of federal aid, revenue sharing or certain fees and are payable from these receipts.
- **Teachers' orders** are issued to pay wages of teachers when there is no money in the educational fund. They are repaid when funds are available and can also be repaid by the issuance of funding bonds.

Long-term Cash Flow Borrowing

These tools can provide substantial amounts of new cash to fund a variety of needs. Unlike the tools described above, they do provide additional funds to the school district and are secured by a direct annual tax levy. The regulations governing their issuance and uses of the funds are complex. Referendum requirements differ according to the type of borrowing instrument and whether the district is located in a county subject to the property tax cap. (See "Borrowing under the Tax Cap" on

page 47.) All non-referendum tax bonds require a public hearing prior to issuance, under the provisions of the Bond Issue Notification Act. Consultation with a public finance attorney is essential if such borrowing is contemplated.

Instruments identified as subject to a "backdoor referendum" requirement may be issued after publication of a notice, followed by a 30-day period during which registered voters may petition for a referendum on the bond sale. Absent a petition signed by 10 percent of the registered voters of the district, the bond sale may proceed within a three-year period. If a petition is received, the sale must either be put to a referendum or abandoned.

- **Working cash fund bonds** are issued to create or increase that fund, after which the money can be loaned to any fund for which taxes are levied to avoid the need to issue warrants or notes. They are subject to a backdoor referendum.
- **Funding bonds** are a means of "rolling over" short-term debt, such as teachers' orders. They may also be used to fund early-retirement obligations, technology purchases or other claims. They are subject to a backdoor referendum.
- **Tort judgment funding bonds** may be issued without referendum for payment of obligations from judgments or settlements.
- **Insurance reserve bonds** may be issued without referendum to create a reserve fund as part of a self-insurance program. State and federal law regulates the amount of such a reserve and its investment.

Long-term Borrowing for Buildings and Other Capital Expenditures

Like the debt issues described above, these options are authorized in state law and regulated by both state and federal rules.

- **Building bonds** are used to fund land, building and equipment costs for new schools, as well as alterations, additions and repairs. They require a referendum.
- **"Life safety" bonds** (fire prevention and safety, environmental protection, school security and energy conservation bonds) may be used to fund state-approved projects and, in some cases, replacement buildings. They do not require a referendum if a district is not subject to the

property tax cap. If a district is subject to the tax cap, it may be possible to issue them as limited bonds.

- **Installment contracts** may be used to pay for capital projects (real or personal property) over as long as 20 years; there is no separate levy to fund them, and therefore no new money accrues to the district. No referendum is required.
- **Leases of sites, buildings and equipment** may be entered into for maximum periods that vary according to the property being leased and other provisions of the law. No referendum is required.
- **Guaranteed energy savings contracts** are secured by a contract that guarantees a ten-year payback of the cost of a project from its energy or operational cost savings; the contractor must reimburse any shortfalls to the district. No referendum is required.
- **Alternate bonds**, which are subject to a back-door referendum and public hearing, are repaid by pledging an operating revenue source equal to at least 1.25 times the amount of the borrowing. Typical pledged revenue sources include operations and maintenance fund taxes, general state aid, corporate personal property replacement tax revenue, developer donations, and revenues from tax increment financing districts. A backup tax levy is provided for if the pledged revenues fall short of the amount required to repay the bonds.
- **Refunding bonds** are commonly used to restructure the district's debt, reduce interest costs or avoid default. They do not require a referendum but must comply with complex federal regulations.

Planning For A Debt Issue

The complex laws and procedures for issuing debt requires that the board of education, financial administrator and superintendent have a sound grasp of the district's need for short and long-term financing for various needs. Since bond referenda can be held only on primary and general election dates, planning for a referendum often begins two years or more before the target date for the vote. If prospects for passage are uncertain, additional time must be allowed to "resell" the public should

the referendum fail.

The steps in planning and marketing a debt issue vary according to the specifics of each need and debt instrument selected. The following steps are necessary for most of them. Administrators will do much of the background work; board of education understanding and approval are necessary as the debt issue moves from concept to market.

- Financial projections and other relevant planning to determine borrowing needs
- Appointment of attorney and selection of financial advisor
- Selection of borrowing option(s) and definition of limits and approval process
- Establishment of timetable for issue, including a referendum if required
- Organization and carrying out of a referendum campaign if required
- Preparation of documentation of compliance with state and federal laws
- Determination of mode of sale—competitive bid or negotiated sale
- Preparation and distribution of official statement to potential bidders or buyers
- Holding of a public hearing if required
- Application to credit agency for a rating on the debt issue
- Receipt and presentation of bids for board of education action
- Preparation of post sale documents and closing of the sale to receive the money

In selecting a financial consultant, first determine the types of assistance that are required of the firm. All consultants will guide the sale process from marketing through closing. In addition, will the consultant be asked to assist in preparing financial projections and identify options for the board of education, or is the administration able to perform these steps? After identifying the required services, talk to the district's bond attorney and to several districts that have recently sold bonds and prepare a short list of firms that are to be invited to prepare proposals for service. Requests for proposals should clearly specify the services required.

Securing the most favorable possible rating for a debt issue requires considerable research and

preparation. Fitch IBCA (www.fitchibca.com), Moody's (www.moody.com) and Standard and Poor's (www.standardandpoors.com) issue quality ratings on school bonds. Such a rating is not legally required but may lower interest costs. Bond insurance may also serve to lower interest costs. In planning for a bond sale, talk to some administrators that have recently gone through a credit rating and ask to examine their submissions and the rating agency's final report. Watch for presentations at conferences by representatives of the rating firms, and attend them if borrowing is contemplated.

Financial consultants will assist in preparing for the rating conference, but the raters often talk to them separately and expect superintendents and business officials to display an in-depth knowledge of their community's economic characteristics and district's financial condition and plans.

Fees for bond counsel, financial consultants, rating services, insurance and various incidentals should be researched far enough in advance of the sale for them to be included in the district's budget. Payment for financial consultant services and bond counsel can be quoted in terms of a flat fee or, in the case of a negotiated sale, included in the cost of the issue. The consultant will assist in evaluating these two marketing options, which is a decision of the board of education. Various costs of issuance, including printing and distribution of official statements, advertising, and fees for registration of the issue and paying agents will be additional.

Borrowing under the Tax Cap

As discussed in Chapter 4, "Living with the Tax Cap," a district subject to the Property Tax Extension Limitation Law is constrained in its ability to issue bonds without referendum. Affected are such borrowing options as life safety bonds, working cash fund bonds, funding bonds and insurance reserve bonds. Such bonds may be issued as "limited tax bonds," without a referendum, only if the district levied for non-referendum bonds in the tax year when the property tax cap was approved in the county in which the district is located.

The amount of the levy to repay such bonds in that year, called the Debt Service Extension Base (DSEB), defines the maximum available levy for non-referendum bonds in future years, even if a period of time with no such levy has elapsed since the repayment of earlier bonds. For example, if a district in Lake County, where the tax cap was imposed in 1991, had a \$750,000 levy for repayment of life safety bonds that year, it may levy up to \$750,000 each year for repayment of new limited bonds. Applicable backdoor referendum and public hearing requirements still apply.

County clerks and public finance consultants can provide information on a district's historical levies and determine whether a DSEB exists and in what amount. Consultants can assist the district in structuring future bond sales to gain maximum funding power from the available DSEB, while taking into account the effect of such actions on property tax bills.

12 / REVENUE MANAGEMENT AND CONTROL

The techniques listed below are used by successful school leaders to assure the highest possible yield from local, state and federal revenue sources. (Part Two of this book, which discusses expenditure budgeting and management, includes management tips on the overall budgeting process and expenditure control.)

Property Tax Revenue

- Know your tax base and its outlook by establishing and maintaining contact with township and county assessors, with persons in the community knowledgeable about local real estate values and trends and with the officials responsible for tax extensions (billing) and collections.
- Maintain a data base on large commercial and industrial property valuations and compare the valuation trends to changes in the condition of the property, occupancy and other determinants of value. Consider appealing under assessment and reductions of property valuations which lead to significant revenue losses.
- Monitor tax receipts monthly; watch for unusual discrepancies that suggest an error by the county treasurer in distributing taxes to public agencies. They do occur from time to time.
- In budgeting property tax revenue, allow for non-collection of taxes due to bankruptcies, appeals and other factors; research and consider historical rates of uncollected taxes. Examine selling delinquent taxes and other old receivables to generate current revenue. Monitor assessment appeals, and allow for possible refunds if pending appeals are decided in favor of the taxpayer; such refunds can be substantial in the case of large commercial and industrial property.
- Work with local government officials to secure impact fees and developer donations of land

and/or money to offset the cost of building facilities to house students from new homes.

Levies

- Plan tax levies carefully so that levies for each fund reflect budgetary needs and applicable tax rate limits. In tax-capped counties, research trends in new property valuations as well as the cost of living statistic, and simulate the extension calculation under different scenarios before finalizing levies. This will work to avoid under levying and the consequent loss of tax revenue entitlement for the year and following years.
- Make use of special purpose levies such as tort liability, life safety and rent funds to the extent and for purposes permitted by law to relieve pressures on the major operating funds. Keep current on legal interpretations of allowable uses of these funds.
- Consider the tax bill effect while planning levies, bond issues and referenda to increase the tax rate; this will maximize the chances for the success of actions which require voter approval.

Attendance

- Maintain an accurate attendance accounting system and audit trail, understand the process of completing general state aid and other state claim forms. This will work towards maximizing revenue and minimizing audit reductions.
- Maintain surveillance on the residency of pupils and collect tuition for or disenroll non-resident students.

Fees

- Community service programs can contribute to the costs of district overhead. Establish fees for

child care, lunch, summer programs and adult education to recover their costs, including building costs and administration.

- Make use of the federal meal program cash and commodity subsidies; keep and maintain accurate records substantiating student eligibility for free and reduced breakfasts and lunches.
- Keep textbook, transportation and other fees current with their related costs.
- Consider activity participation fees, but have a policy and subsidy for indigent students.

Grants and Other Revenue

- Understand the purposes and claim procedures for the various state and federal categorical grants. Maintain the necessary data base on students and costs so as to secure the maximum amount of available revenue from them.
- Lease or rent land and facilities not being used at rates that reflect costs and the market for such real estate. Consider sale of obsolete buildings and unneeded school sites.
- Sell services to other agencies to fully utilize specialists and facilities.
- Sponsor special fund-raising events, such as golf tournaments, that will attract the community's business and professional leadership, and thereby expose them to the school's needs.

Investments and borrowing

- Develop and maintain an accurate system of projecting cash flow so that temporarily unneeded funds can be invested for terms that maximize interest revenues, and so that the costs of short-term borrowing are reduced or avoided altogether. Become familiar with the yields and terms of various investment instruments that meet legal and policy standards for safety.
- Use interfund transfers and loans and the working cash fund in lieu of outside borrowing.
- Judicially use bonds and other tax-exempt credit instruments when cash is needed to fund facilities and other expenses due to enrollment expansion or program need. Keep current with the laws governing the permissive uses, amounts and authorization processes governing the various forms of short and long-term debt.

Revenue Controls

- Maintain a system of checks and balances to assure the proper handling of all receipts, especially cash, and separation of the functions of purchasing, payroll and disbursement of funds. Employ the ABC's of internal control—separate Authorization, Bookkeeping and Cash control.

13 / PLANNING THE SUCCESSFUL REFERENDUM

Overview

A referendum may be required to raise the property tax rate for one or more funds, to exceed the revenue limits imposed by the property tax cap, or to sell bonds for school buildings, repairs or for operating funds. Sometimes simultaneous referenda are scheduled for the construction of school buildings and related education and/or operating and maintenance fund tax rate increases.

Except in narrowly defined emergency circumstances, referenda may be held only on four scheduled election dates in each two-year cycle. These are the March primary and November general elections in even-numbered years and the February consolidated primary and April consolidated general elections in the spring of odd-numbered years. A referendum question may not appear on the ballot unless there is a contest in at least one precinct in the district. This provision may exclude referenda from the February primary election, if there is no primary contest for a municipal office.²² Therefore, school districts planning a referendum should count on only three election dates in the two-year cycle.

Preliminary planning for a referendum begins more than a year ahead of the election, with the longest lead time required for questions related to the funding of new school sites and buildings. This section outlines some of the considerations that enter into planning for a referendum. School board members and administrators who are contemplating a referendum should consult the publication and human resources listed at the end of the section for a more complete discussion of pre-election planning and strategies.

²² Provisions governing school elections in the Election Code and in the School Code are summarized in Chapter 4 of *Illinois School Law Survey (ISLS)* by Brian Braun, published by the Illinois Association of School Boards, 2002.

Establishing the Need

Whether it involves a new school building or an increase in the tax rate, or both, the referendum question must state precisely the amount of money to be borrowed or the amount of the tax rate increase necessary to meet operating cost needs. Defining these questions requires financial projections and, if a building project is involved, a demographic study and enrollment forecasts. Board of education study and acceptance of these projections is an essential first step in achieving the all-important board unity in the early stages of planning the referendum. If the board is not united, the referendum will be a much tougher sell.

Consultants and architects can assist in developing accurate and convincing financial projections and building cost estimates necessary to size the referendum and determine the ballot language. Involvement of key community leaders and dissemination of study information to constituents are necessary to building community consensus.

Informing and Reading the Community

Two-way communication between the community and school district is essential in building the community consensus necessary to a successful referendum. Referendum communications that are part of an ongoing public relations program will be more effective than "referendum-only" efforts. If the district's internal and external public relations programs are lacking, the time to beef them up is well before the referendum communications are due to begin.

The board must evaluate public opinion towards the schools and determine what the community can afford and is willing to pay. Reading the local economic and political climate is greatly assisted by communications with business and government leaders early in the planning stages, as

well as by analyzing media coverage of the schools. Recent controversies over educational programs or other school issues, labor disputes, or failed referenda in the past few years will have increased the number of potential negative votes and must be anticipated in planning the public relations program.

Community awareness surveys provide valuable insight into attitudes about the schools. If the referendum is tied into a community-wide question such as the construction of a new school, and the consequent redrawing of attendance boundaries and/or shuffling of grade levels, care should be taken to provide opportunities for the entire community to become informed and address the questions. A combination of written surveys and community meetings might be required.

Surveys and public meetings on the subject of the school budget will reveal the public's views on how school money is being spent, as well as unmet aspirations for improvement that can provide additional rationale for a tax rate increase. Consultants can assist in the preparation and analysis of surveys, which can involve interviews of school and community leaders and focus groups as well as analysis of survey data.

The end products of the communication phase include a better-informed electorate, a more precise definition of those needs which the community is prepared to support, and ideas for the campaign theme. The question, "Why do we need the money?" has been answered. Pockets of support are identified to be enlisted during the campaign, and potential opposition groups are also brought forward. Some may represent issues that can be dealt with, while others may be "dug in" opponents who can be counted, but not persuaded. Such counting will help define the number of yes votes necessary to carry the question as the campaign stage is organized.

Organizing and Working the Campaign

Considerable caution is required to separate referendum-related expenditures from those of the board of education. Campaign finance reporting requirements may apply; the necessary information can be obtained from the county clerk. Public funds can be used to inform but not to advocate; crossing this line provides opponents with heavy ammunition in addition to constituting a violation of the law. Printing and mailing of advocacy mate-

rial should be performed off school premises, and the school attorney consulted if there is a question as to whether a referendum-related activity can be construed to constitute illegal advocacy. A clear policy should be established with respect to contributions from school vendors and other commercial entities to the referendum campaign.

After the question, theme and date of the referendum are determined, attention turns to the organization and staffing of the campaign. It is important that the campaign leadership be representative of all segments of the community, not just the school board and administration. The timetable should allow sufficient time but not too much, so that the campaign peaks just before the election. Sneaking the question through at the last minute seldom works.

Campaigns are organized around the critical functions of voter registration, canvassing, preparation of campaign materials, finance and election day activities. A steering committee and general chairperson develop strategy and schedule and coordinate the work of the subcommittees. A typical steering committee would consist of subcommittee chairs, an administrative representative and one or two school board members.

It is important to research past voting patterns and to conduct a registration program that identifies and focuses on potential yes voters. Study of recent elections will reveal persons who do and do not vote regularly and determine the number of votes needed for approval. Cross-referencing voter lists with parent lists will identify parents who are not registered to vote. Some may be new to the community, or recent citizens. Train deputy registrars to assist them in registering in time for the referendum. Target non-voting but registered parents for special attention during the campaign. Don't forget 18-year-old students, recent graduates, parents of preschoolers, employees and other known school supporters. Offer assistance to potential yes voters who require absentee ballots.

The effective campaign employs short and simple messages, focusing on why the money is needed and benefits to the children and community. If a building referendum, for example, will fund a central school, or renovations and additions in several schools, make it clear that there is "something for everyone" in the community. Communications should be consistent and targeted to their audiences. Simple graphics speak louder than words. Voters will want to know the impact on their tax

bills; it is common to tell the effect on the “average” home in the community. It is useful to assemble the public relations materials from successful referenda in your area, and to talk to board members and administrators who played leadership roles in the campaign.

A kick-off event is an effective way to begin the campaign. Subsequently, information can be distributed through mailings, door-to-door distributions, signs, the media, public events, endorsements and paid advertising. Identified “yes” voters call for special attention, including telephone and door-to-door canvassing. In-school meetings sponsored by the referendum committee and parent organizations provide excellent opportunities to inform school patrons about the referendum and the benefits it carries for their children.

Completing Election Formalities

School elections are administered in most locales by the county clerk, who shares responsibility with the school for certain publications and posting. School officials should work closely with the clerk to determine that full compliance with filing deadlines and publication and posting formalities occurs. Minor errors can invalidate a successful referendum.

The board of education must pass a resolution to place a question on the ballot. The school attorney will draft a resolution containing the proper ballot language in line with the financial goals of the school district. This wording can be arcane, but it is specified in law and cannot be modified or elaborated upon on the ballot. The public relations campaign must carry the message. The resolution must be adopted and certified to the election official during a specified period. Early in the planning stages, the school attorney should identify the critical dates and procedures for filing the resolution and posting related notices.

Election Day Procedures

Election-day procedures to maximize yes votes resemble those used by candidates for public office, and include phone banks to remind “yes” voters to go to the polls, poll watchers, rides and child care

for parents, surveys of voters, assembling and acting on voting and polling data during the day and, hopefully, a victory party followed by recognition and thanks of leaders and workers.

If the question fails, debriefing and evaluation of the campaign will provide important information for organizing the next one. Accept the results of the democratic process, avoid damning the voters, modify plans and campaign approaches as required, analyze the vote, and prepare to begin anew.

Getting Started

The following publications are useful for administrators and board members who have never been through a referendum:

- *Winning the Referendum Battle in Education*, by Joseph J. Graves is available from the on-line bookstore of the Illinois Association of School Boards, www.iasb.com.
- *Evaluating Your School PR Investment*, published by the Association of School Business Officials International, www.asbointl.org.
- *Illinois Laws Affecting the School Finance Election*, published by the Illinois Association of School Boards, may be downloaded from www.iasb.com.
- *Illinois School District Referenda*, by Hank Boer, published by the Illinois Institute for Rural Affairs, may be downloaded from www.iira.org/pubsnew.

Workshops and conference programs on conducting a referendum are offered by a number of professional associations, including:

- Illinois Association of School Business Officials, www.iasbo.org.
- Illinois Association of School Boards, www.iasb.com.

Various public finance consulting firms and banks also provide assistance in planning and conducting referenda. School law firms include in their presentations and workshops the applicable legal requirements for referenda, and should be consulted for guidance throughout the process.

14 / THE FUNDING DEBATE

The Dilemma of Local Control

Illinois has almost nine hundred school districts, a fact that is germane to both the tone and substance of the ongoing debate about the funding of its schools. Small districts are found not only in rural parts of the state, but throughout the Chicago suburbs as well, where many districts consist of one or two buildings serving a few hundred K-8 students. Although the number of districts drops slightly each year through voluntary mergers, periodic state efforts to force state-wide study of consolidation of small districts have foundered on the long-standing Illinois belief in local control. Small districts are believed by many residents, their school board representatives and their administrators to promote citizen control over their schools' program, personnel and finances.

This strong ethic of local control contributes to the belief that greater funding from state sources will be accompanied by distasteful mandates on curriculum, budgets, personnel, facilities and policies governing school operations—issues best decided by each community for its schools. Although the property tax is unpopular, it is controlled in many aspects by locally elected school boards and other officials. However, the combined property tax base and state aid of many districts is inadequate to fund a program deemed "adequate" by their residents and by standards proposed by school finance researchers. In some of these communities, local attitudes tend to favor the *status quo* as opposed to greater state funding and control. In others, the resource gap constantly frustrates efforts by the community and staff to offer students a program that will meet, let alone exceed, the state's minimum standards.

A tax-wealthy Chicago suburb can fund an enriched program with low tax rates and minimal state aid, perhaps spending upwards of \$8,000 for an elementary student and \$12,000 or more per high school student. State funding issues are

almost irrelevant for such districts, as long as local control is not compromised.

In districts with a weak or declining tax base, and with aspirations for their schools that cannot be met within tolerable property tax rates, the funding issue focuses on the state's share, even at the expense of local control. Pockets of tax-base poverty exist from the southern suburbs of Chicago to depressed agriculture and mining areas throughout the state. These districts receive the greatest proportion of their budgets from state aid. Even then they must tax themselves at very high rates to fund a school program that is basic at best, and contains few if any of the characteristics that educators consider necessary to prepare children for the world of the 21st century. A vicious cycle of lower resources and lowered aspirations occurs, which can compromise the education of generations of future children in funding-deprived districts.

If resources correlated with aspirations on a community-by-community basis, there would be no debate over the adequacy of state funding. However, the widening resource gap among Illinois school districts raises issues of program adequacy that are likely to drive future political and legal action to increase state funding for districts on the lower end of the tax resource continuum. With the unpopularity of the property tax at an all-time high, reflected in the persistent spread of tax caps throughout the state, the issue of funding adequacy rests on the table of the Illinois legislature. How it responds and how local school boards respond to changes in the funding system may be the ultimate test of the strength of the tradition of local control in Illinois.

Vocabulary of the State Funding Debate

This is a good time to introduce some new meanings to commonly used words and to review the basics of school funding in Illinois at the state

and local levels. The following terms are used in the ongoing discussion of reforming state systems of school funding. While their precise meanings vary according to each state's formula and legal interpretations, the following definitions serve as a starting point for examining how the funding issue is playing out in Illinois.

Equity can be defined as "a fair and just means of distributing resources." These resources can refer both to state-raised and appropriated money (e.g. sales taxes and general state aid) and to locally-raised property taxes. "Equity" has often been the concept on which lawsuits challenging school-funding systems are based. Equity of resources is not necessarily the same as equality of resources behind each child's education.

Adequacy refers to a standard measure of an educational program, for the purposes of defining a minimum guaranteed amount of combined state and local funding for each child's education. Adequacy is usually defined in terms of dollars per student but can also be described in terms of student-teacher ratios, programs and other non-dollar measures. The adequacy figure may or may not be "research-based" or normative. In some districts, the quality of a district's buildings has become one

of the legal criteria of adequacy.

The **foundation level** serves as a starting point for determining the mix of general state aid and property taxes that makes up the minimum level of support behind each pupil's education. Determining that mix is called **equalization**, which distributes state aid in inverse proportion to local ability to raise money from the property tax.

Ability refers to the power of a local school district to raise money through the property tax, at a specified level of tax rate (**Effort**). The greater the amount of property behind each child's education (**Wealth**), the greater the district's ability to raise local funds at the specified level of effort.

Equity and adequacy are interrelated, as shown by Table 6, which compares homes in two hypothetical suburban Cook County school districts. The bold-faced lines illustrate that a much greater tax rate effort by the owner of the inexpensive home is necessary to produce the same revenue for the school than does a much lower tax rate on the more expensive home. This situation violates the principle of equity. Moreover, it is unlikely that the district of poorer homes would be able to secure voter approval for such a high tax rate. It must try to survive on an affordable low tax rate

Table 6 - Comparison of Taxpayer Effort in Rich and Poor Districts

	Home in South Cook County	Home in N.W. Cook County
Market value	\$ 150,000	\$ 240,000
Legal assessment rate	.16	.16
Real assessment rate	.10	.10
Unequalized AV	\$ 15,000	\$ 24,000
Township multiplier	N/A	N/A
State multiplier	2.25	2.25
Equalized AV (EAV)	\$ 33,750	\$ 54,000
Homestead exemption	(1,500) (a)	(4,500) (b)
Taxable EAV	\$ 32,250	\$ 49,500
School tax rate	5.00%	3.26%
School tax yield	\$ 1,613	\$ 1,614
Difference in tax rate	1.74%	

(a) The homestead exemption for the Cook County property owner who lives in the home is a maximum of \$4,500 above the 1977 equalized valuation. In this example, the value of the south Cook County home has increased very little since 1977. Hence, a lower exemption applies.

(b) The home in northwest Cook County has increased greatly in value since 1977. Hence, the full \$4,500 exemption applies.

that reduces the resources for the schools to a level far below that considered necessary to fund an adequate education.

The Problem with Equity²³

"Equity" is a complex concept on which to build an argument for change in a school funding system. It is hard to explain simply in terms that move legislators, voters and courts. Both "taxpayer equity" and "student equity" must be considered, and these interests do not always coincide. One principle of taxpayer equity suggests that taxpayers with equal ability should bear the same tax burden—e.g. tax rates should be the same across the state, regardless of local preferences to fund a program more or less generous than a legislatively-defined norm. A variation on this principle states that tax burdens should vary with the ability to pay; in other words, a variable rate structure.

A second principle of taxpayer equity states that districts with equal tax rates should receive substantially equal per pupil resources, e.g. equal yield for equal effort. In the case of the two Cook County districts illustrated on page 54, state funds would be required for the poorer district to fund its program with a tax rate equivalent to that of the wealthier district. Local preferences for education rather than differences in resources would account for differences in school district resources. The state must be prepared to step in to fund the differences between aspirations and ability.

Student equity has three dimensions. Horizontal student equity dictates that equals be treated equally, e.g. that there be no variation in per pupil resources. Vertical equity holds that unequals be treated unequally. Legitimate differences must be defined on such bases as special education needs, poverty impact, etc., with additional resources allocated accordingly. Vertical equity is the philosophical basis for categorical aid programs and for weightings for children in poverty in the general state aid formula.

Finally, equal opportunity as an equity dimension dictates that students have access to equal resources despite "illegitimate differences" such as district type and wealth. The landmark *Serrano* court case in California stated that residence is not

a legal reason for inequity. However, no federal court decision on school funding carries comparable weight for all states, and school funding litigation in Illinois and most other states is conducted in state courts based on the constitutional provisions and laws of that state.

Regardless of the measure used, equity historically tends to improve in periods of state revenue prosperity and deteriorates when state incomes are depressed by economic conditions or changes in tax policy. In Illinois, a weak education mandate in the State Constitution and the existence of three forms of school organization further complicate achieving school funding change founded on equity.

Litigation challenging school finance systems in Illinois and elsewhere has focused on the alleged lack of equity in a particular state's mix of property tax and state support for schools. Courts in many states have demanded that legislatures rework formulas so that the resources behind the education of students in a given school district are less dependent on the district's wealth. Legislatures have responded with various degrees of speed in meeting these mandates, but the common results combine an increase in the level of state funding, new or increased state taxes to pay for it, and reductions in individual school districts' access to taxes on property within their boundaries.

Where successful, equity-based court-initiated changes have rested on strong provisions in state constitutions on which plaintiffs can tie challenges based on equity or equal protection of the law. Such challenges have not been successful in Illinois; the most recent court failure for Illinois school reformers, in this case a coalition of lower wealth districts, occurred in 1996.²⁴ The courts held that the provisions of the education article of the Illinois constitution calling for high quality education, with primary state responsibility for funding it, represented a goal rather than a mandate on the legislature. Such failures are not unique to Illinois, and school finance reformers are now focusing on "adequacy" as a more understandable, demonstrable and research-based foundation on which to build the next challenges to outdated "inequitable" state school funding systems.

²³ The discussion of equity is summarized from the 1999-2000 edition of *State, Local and Federal Financing of Illinois Public Schools*, Appendix K, published by the Illinois State Board of Education.

²⁴ *The Committee on Educational Rights v. Edgar* (1994) 267 Ill. App. 3d 18, and Illinois Supreme Court Docket 78198 (1996).

Adequacy—How Much Is Enough?

For decades, advocates of higher funding levels for public education recited familiar arguments based on practices in other states (those funding at a substantially higher level, of course) or on grounds of seeming self-interest, notably higher salaries for teachers. Educators and their supporters from areas able to support only low expenditures pointed to the higher tax bases and budgets of the wealthy districts in suburban Chicago. Expressed cynically, but accurately, "when all was said and done, more was said than done," as the legislature, when it did increase foundation funding levels, often did so at a level less than inflation. Moreover, restrictions on schools' access to property taxes proliferated as a "trade-off" for occasional minimal state funding increases.

During the 1990's, and especially with the failures of the court challenge to the Illinois funding system and of a constitutional amendment that would have strengthened the legal argument for change, it became apparent that normative arguments based on comparative resources and expenditures—and equity—would not be sufficient to achieve a real increase in funding levels. Coinciding with the emphasis on standards, accountability and data-based decision making on the instructional management side, school finance researchers turned their attention to developing research-based expenditure norms that would serve as adequacy yardsticks for establishing guaranteed state and local funding efforts—and that could be related to raising achievement standards as well.

Prominent school finance reform advocates, notably Allan Odden of the Consortium for Policy Research in Education, have proposed adequacy-based funding systems.²⁸ They note that most states' school finance structures do not align with current standards and reforms aimed at achievement of high standards. They conclude that funding formulas of many states are counter-productive to achieving equity and actually widen disparities in resources. Property rich districts get richer and the property poor receive increasingly inadequate

resources. Poor districts tend to use increased state support to reduce their local taxes, not to increase spending. Rich districts use the increased money to supplement their already high spending level.

Guaranteed foundation amounts in many states, including Illinois, are established at modest levels far below the costs of educating students to today's standards. Some researchers suggest that a state's current median actual expenditure would constitute an "adequate" state-wide amount to fund a program to enable the "normal" student to meet the standards established for all students.

In Illinois the average annual operating expenditure per pupil is approaching \$7,500. Compare this figure to the current foundation formula guarantee of \$4,560. Illinois' proportion of expenditures funded from property taxes is among the highest in the nation. No wonder that Illinois ranks in the bottom in equity and adequacy of school funding as measured by the state's equalization effort and the "wealth neutrality" of the state school funding system.²⁹

Adequacy-based reform proposals build on research. One technique starts with an "expert consensus" on the components of a program design to enable all students to meet a state's basic educational goals. Those components are then priced and the costs adjusted for regional costs of living. A second technique is an analysis of expenditures in schools using selected "whole school reform" models that have been shown to be effective in raising student achievement. Odden uses the *Modern Red Schoolhouse* and *Roots and Wings/Success for All* models in developing his proposals.

There is no "one-size fits all" adequacy amount, for children vary widely in their preparation for schooling and special needs. Under an adequacy-based formula, a school district's funding calculation would begin with a general figure, determined as described above, applied to total enrollment. Additional amounts would be added for low-income students, students in special education programs, calculated under several different levels of funding related to severity, and for those in need of additional language instruction. Finally, regional adjustments within states would be made to ensure comparable spending power in the face of differences in the costs of education and efficiency factors resulting from district size, urban-rural

²⁸ Odden's critique and proposals are summarized from an expanded summary of his paper, "Improving State School Finance Systems," published at the University of Pennsylvania by the Consortium for Policy Research in Education, 1999, and from his presentations at recent school finance conferences.

²⁹ The rankings appear in *Education Week*, January 10, 2002, pp.86-89.

location etc.

There is considerable research underway in many states to determine adequate adjustments for special needs. While no consensus figures have emerged, low income allocations in the range of \$1,000 per student and special education allocations in the range of 130 percent of the basic amount have appeared in recent literature. Research to support allocations for students in bilingual and other programs to deal with language problems is scarce.

Under an adequacy-based funding formula, state and federal funds now used for low-income students, special education, bilingual instruction and other "categorical programs" would be combined and become part of the state's general school funding package. In Illinois and many other states that are heavily dependent on property tax funding for schools, additional state funds from a tax increase or from some form of new tax such as a state property tax would likely be required to raise the funding amount to such a funding level.

A model that would fold most categorical funding programs into the general state aid funding pool would be highly divisive in Illinois, unless "no loser" provisions were worked into a transition formula. Although skepticism or opposition from wealthy districts and "special interest" groups can be expected, it is likely that proposals based on Odden's and similar critiques will be heard widely around the country, including Illinois in the coming years.

Future debates on the adequacy of school funding are not likely to be confined to states' legislative chambers. Court cases based on provisions in state constitutions that speak to "adequate" and "thorough" education are expected to supplant "equity-based" legal challenges during the coming years. With plaintiffs' cases bolstered by research-based arguments relating funding levels to achievement, it appears likely that the present systems of many states, including Illinois, will receive strong court scrutiny and likely mandates for change.

15 / THE STRUCTURE OF THE EXPENDITURE BUDGET

Why Schools Have Budgets

The school budget serves many purposes. It fulfills a School Code requirement for a plan for the receipt and expenditure of money, and is a prerequisite for spending school funds. It provides a minimum level of financial information for the use of the district as well as state and federal government agencies. It justifies the levy of property taxes and defines the account structure for classification of revenues and expenditures.

The budgeting process is a leadership, planning and communication challenge for the school board and administration. It is an annual opportunity to bring together the district's instructional program and support services, weigh their resource requirements for the near-term and long-term, compare these costs to the district's goals and available resources, and make decisions to increase or decrease resources to specific programs and services. These decisions require a planning and communication process that fits the decision-making philosophy of the district, as practiced by its board of education, administration and staff leadership. Defining this process is a critical first step in developing the budget, especially when a new administration takes over or when difficult priority decisions must be made.

Effective budget decisions can be made centrally or at the school site level, or a combination of both. They can reflect formulas established by the superintendent and business manager, or arise from program initiatives and proposals developed by principals and teachers. Commonly, they result from both. Recent years have seen a trend towards greater participation and autonomy for school principals in budgeting decisions in consultation with their faculties and communities. The central office role is to establish procedures and general allocations to guide the decentralized process. Whether centralized or decentralized, a budgeting process

will work best when it matches the district's management culture and administrative style. Put succinctly, "You budget like you manage and you manage like you budget."

Change is a fact of life in every school district. Enrollment may be increasing or decreasing. Subpopulations of the district may also be changing, along with their different needs. There are curricular changes, technology needs for instruction and administration, and needs for building repairs and additions. Parents and teachers demand greater voice in significant decisions. In times of change, simply building next year's budget on top of this year's allocations will not suffice. Rather, a planning and communications process extending over the entire school year is required, thereby making budgeting one of the major leadership opportunities for both building and central administrators. If a sound, creative and energizing process of planning and communication has taken place, the final budget should contain no surprises to the staff, the public and especially the board of education.

The Structure Of The Budget Document

This section should be read along with the expenditure portion of the school district budget on the form provided by the State Board of Education. The form can be downloaded from www.isbe.state.il.us. ISBE publishes a booklet, *ABCs of the School Budget*, which serves as a useful guide to understanding the structure of the budget. It contains charts and schematics of the account structure, sample budget pages and a glossary of budgetary and accounting terms.

Each budgeted expenditure is assigned to a cell representing fund, function, or program and object. Each fund has its own section of the budget. The nine major funds and their numerical designations on the state budget form are:

10	Educational Fund	The largest fund, for instruction-related items
20	Operations & Maintenance	For the upkeep of buildings and grounds
30	Bond & Interest	Used solely for payments on debt
40	Transportation	For costs associated with busing
50	Municipal Retirement/ Social Security	For the district's share of required payments
60	Site & Construction/ Capital Improvements	A fund used when needed
70	Working Cash	For funds dedicated to provide a cash cushion
80	Rent	For payments for leased buildings or equipment
90	Fire Prevention and Safety	For eligible code-required building projects

The functions or programs to which expenditures are charged are represented by the rows. Each function has its own number, assigned according to a "chart of accounts" specified in the *Illinois Program Accounting Manual*. The *Manual* can be found in district business offices or ordered from ISBE. The numbering system for the functions recognizes six general categories of expenditures, as follows:

Instruction	1000 series account number
Support Services	2000 series account number
Community Service	3000 series account number
Nonprogrammed	
Charges	4000 series account number
Debt services	5000 series account number
Provision for contingencies	6000 series account number

Each category includes the instructional programs or support services for which budget appropriations are made. A minimum of three digits must be used to describe the function. For example, elementary school instructional expenditures are numbered 110 and building administrative services are coded 241. These minimum designations are the only ones necessary for reporting expenditures to the state.

The district may expand its chart of accounts to include additional classifications and account numbers for each school building, grade level, high school department and even the subject area and level of individual courses. Additional numbers permit the preparation of detailed reports to assist administrators and teachers in monitoring their

budgets, a necessity for decentralized decision making. However, each additional category creates complexity and opportunity for error in classifying expenditures for budgeting and accounting. Like the budgeting process, the account structure should reflect the district's management philosophy.

Many districts expand their budget documents beyond the state form to include statements of strategic planning goals, program enrollments, school improvement plans, narratives describing revenues and expenditures, organizational charts, budget process descriptions, financial projections and more. Examine some of these budgets to select possible enhancements to your district's budget. Standards for expanded budget documents can be obtained from www.asbointl.org. Look for information on the Meritorious Budget Awards and for other publications on budgeting.

The "objects" or types of expenditures are shown on the budget form in numbered columns, headed as follows:

1	Salaries
2	Employee Benefits
3	Purchased Services
4	Supplies and Materials
5	Capital Outlay
6	Other Objects
7	Transfers
8	Tuition

As with functions, local district option exists to detail object classifications. Teacher salaries and benefits could be classified as 101 and 201 respectively, while those of paraprofessionals could be assigned object codes 102 and 202. Similarly, textbooks could be classified 311 and consumable materials as 312. Only the first digit is required for state reporting purposes; additional detail should be justified by local management and reporting needs.

Examine the cells formed by the intersection of each line and column of the district budget on the state form. A white cell is a legal budget classification; a shaded cell represents a classification that is not permitted by law or state regulation. Now you understand the origin of the expression, "Stay out of the gray area," a warning by and to accountants to classify revenues and expenditures correctly!

Five is the minimum number of digits required to classify an expenditure, one for the fund, three for the function, and one for the object. The following examples illustrate budgetary and accounting

classifications in both a minimum and optional expanded format. **Optional expanded codes are shown in bold face.**

Elementary teacher's salary: Minimum account code:
1-110-1

Expanded code for an elementary teacher in the Adams School's first grade 1-110-**01-2-1**

Code **01** represents the Adams school and code **2** represents first grade (**1** would designate kindergarten.).

Secondary biology teacher: Minimum account code:
1-110-1

Expanded code for an advanced biology teacher in East H.S.: 1-110-**11-05-01-01-1**

Code **11** represents the East school, **05** the science department, the first **01** biology and the second **01** the level of the class. Such reports would enable the administration and board to factor out the costs, for example, of all of the school's advanced placement classes.

Examination of the internal accounting reports used in a district will reveal the extent to which the minimum state chart of accounts has been expanded upon to meet local management and reporting needs. The more optional digits that are used in an account classification, the greater is the availability of information to schools, grade levels, departments and individual teachers to support their decision-making authority and participation. If elaborate charts of accounts and reports exist that are not necessary to meet management needs, the cost of preparing them is unnecessary administrative overhead.

The official state budget form concludes with a summary section. Study of this section is essential to understanding the district's financial condition at the opening and close of the school year. For each fund, the opening balance, and the year's revenues, expenditures and projected closing balance are shown. The "bottom lines" for each fund state its operating surplus or deficit during the school year, along with changes in its estimated fund balance and its estimated cash balance.

Analysis of these measures of financial health reveals whether borrowing will be required during the school year, and whether steps must be taken to adjust revenues and/or expenditures in budgeting for the following year. The corresponding lines on the district's Annual Financial Report, filed with the State Board of Education following the close of the fiscal year, are a measure of fiscal health used by the state to determine the need for oversight of a district's finances.

General Budgeting Techniques

There are a variety of techniques for developing budget numbers. Financial administrators employ several of them, selecting those that fit the program or service being budgeted, the district's management philosophy and the financial setting in which the budget decisions are taking place.²⁷

- **Incremental budgeting** is performed by applying an inflation rate to items in the previous year's budget. Incrementing assumes a static program, and that each item will continue to receive the same relative slice of the budgetary pie. It is undemocratic but quick, and serves well for long-term budget projections.
- **Line item budgeting** considers and prioritizes each budgetary item. The line item technique obscures the costs of individual programs in favor of highlighting individual salary, supply and capital items. It is best suited for budgeting a relatively static program within a centralized budgeting philosophy or an intensive effort to reduce every possible cost.
- **Program budgeting** organizes expenditures according to their function or purpose. It replaced line item budgeting in the official budget formats of most states in the 1970's, as targeted state and federally-supported programs required cost breakouts to account for grant funds. It supports both centralized and decentralized budgeting.
- **PPBES**, standing for "program planning, budgeting, evaluation system," combines program-based budgeting with unit goals and evaluation data. It thereby attempts to tie results to costs. Data driven and competitive, it is rarely practiced in its fullest sense and rests on assumptions of cause and effect relationships between resources and results.
- **Zero-based budgeting (ZBB)** is a product of a period of government downsizing and fiscal restraints in the 1970's and 1980's that produced "sunset laws" and gave birth to anti-tax measures. It requires annual justification for each program or expenditure. Since many school pro-

²⁷ This list of budgeting techniques is drawn from and discussed more fully in Chapter 12 of *Principles of School Business Management*, by R. Craig Wood and others (Association of School Business Officials International, 1995).

grams are mandated by law or otherwise entrenched in practice, zero-based budgeting is useful primarily to select from among competing new programs, or to develop portions of a budget. Principals might use it with their staffs to make decisions on allocations for instructional materials and equipment.

- **School-site budgeting**, also known as building-based-budgeting, is a method by which a school, usually by a democratic process, apportions its total budgetary allocation with as few externally-imposed rules and assumptions as possible. It requires new behaviors on the part of administrators, staff and parents, requires considerable time, and can raise issues of inter-building equity. School-site budgeting is discussed in more detail in Chapter 23.

Legal Steps In Budget Adoption

Although budgeting takes place throughout the school year, Illinois law establishes dates for the formal consideration and adoption of the budget by the board of education. These dates fall in the late spring, summer and fall, long after key expenditure decisions are made. Legal requirements for preparing and adopting a budget are found in Section 17-1 of the *School Code* for all districts except Chicago, for which they are found in Sections 34-42 through 34-82.²⁸

The budget is first adopted in tentative form during the spring or early summer. It must then be placed on public display for not less than 30 days after publication of a notice in a newspaper circulated in the district, announcing its availability for inspection and giving the date of a public hearing.

²⁸ A description of the budget adoption timetables and procedures, including those for joint agreements, is found in *State, Local and Federal Financing for Illinois Public Schools*, 2000-2001, pp. 40-41.

The final budget, reflecting revisions and corrections in revenue and expenditure items, must be adopted by the board of education by the end of the first quarter of the district's fiscal year. Since the common fiscal year beginning date is July 1, the budget adoption deadline is September 30. The budget may be amended during the year by board action, again following a public notice and hearing.

The district must file with the county clerk, within 30 days of adoption, copies of its budget and an estimate, certified by its chief fiscal officer, of revenues, by source, anticipated to be received by the district during the fiscal year. Care should be taken that a signed copy of the official district budget, on the state form, is filed, and that a separate certification of revenues is signed by the chief school business administrator, superintendent or other administrator responsible for financial oversight.

Districts that maintain web sites are required to post a copy of the budget for the current year. While posting the district's state budget form fulfills this requirement, the law does not specify a required format. Therefore, an opportunity exists to post budget information in summary form that is understandable by residents, and to employ graphics to help carry the message.

Board members, superintendents and financial administrators should keep current with laws governing budget formalities, as departure from the laws can be grounds for "tax objections." These are legal actions which are expensive to defend and damaging to lose or settle. The novice administrator is best guided by an attorney through the formal budget adoption cycle.

Workshops on basic and advanced budgeting and accounting are offered by the Illinois Association of School Business Officials. Information can be obtained from www.iasbo.org. Programs for board members are offered by the Illinois Association of School Boards, www.iasb.com.

16 / BUDGETING CALENDARS AND COMMUNICATIONS

"Never surprise a board of education." Experienced superintendents frequently give this advice to novice administrators, and for good reason. Administrators are granted considerable authority for operating the schools and for developing and overseeing the planning process that produces the annual budget. However, boards of education retain the legal responsibility for the smooth operation of the school district, including its financial soundness. Board members rightly demand to have voice as well as vote as decisions are made on programs, personnel policies and major expenditures that will affect the district's budget and long-term financial picture.

Schools are among the most conservative of government institutions. Their programs reflect long-standing practices and the expectations and values of the community and teaching profession. That conservatism is being severely tested by challenges to the effectiveness of the schools, changes in the student population, the promises of technology and a trend towards more active—even militant—involvement by the school's clientele in its decision-making processes.

Modern budgeting, therefore, is much more complex than developing and recording numbers on a state budget form and performing the legal budget adoption rituals. Instead, budgeting is a planning and communication process and challenge that extends throughout the school year and may involve not only the board and administration, but staff, parents and even students.

This chapter outlines a model calendar for timely expenditure budget decisions and illustrates the communications between administrators and boards of education that are necessary at critical points in the annual expenditure budgeting process. Each district's calendar will reflect its own timetable and process for budgetary communications and decisions during the school year. If these

processes reach decisions during the time periods in the model calendar, they will be timely for staff employment and purchasing decisions for the coming year. *Table 7* provides a summary of the model calendar.

As Soon as School Opens

Budgeting for the coming year begins with determining students and staff, and it can begin as soon as opening enrollments are known. The first step is to project the following year enrollments for each school and for the whole district.

The projected enrollments become the basis for calculating the number of teaching positions that will be required. This calculation, when combined with projection of salaries and benefit costs for the coming year, will constitute a substantial portion of the instructional budget. The need for additional teachers, or for reducing the number of teachers, will become apparent. If enrollment is growing, it is good budgeting practice to round up when counting the numbers of students and teachers for the following year, but not to contract for new teachers until the students are actually enrolled. If the students do not materialize by budget adoption time in the fall, the tentative budget can be reduced at that time.

Budget estimates for support staff, such as teacher assistants, secretaries, custodians and other non-instructional personnel, can also be made in the fall. Support staff counts tend to be relatively stable over the years; salary projections for constant numbers of personnel will suffice for early budgeting unless support staff increases or reductions-in-force are required.

At this point, an estimated "no change" budget for the coming year can be constructed by adding to the staff budget the current year's budget for services and expendable materials. Now is the time to compare projected revenues with the cost of main-

taining the existing program to determine if reductions must occur, if new initiatives must come at the expense of reductions in other areas, or if such additions are affordable without corresponding reductions. The enrollment, staff and financial projections should be discussed by the board of education in preparation for the decisions to come. Boards with standing committees may conduct these preliminary budget discussions in finance, personnel and/or education committees.

Later in the Fall and Early Winter

This is the time to look at non-personnel expenditures. Determine what funds are available for new instructional materials and to meet the inevitable cost increases in materials and services. Remember to allow for changes in enrollment and especially for increases in special education costs due to program changes or enrollment increases. Decide if allocations to each school, grade level or

department are to be increased, held constant, or decreased in favor of other programs. It will be necessary to decide what inflation rate will be used if an increase in materials is budgeted. Cost increases are outpacing revenue increases in many districts. The tax cap inflation rate, which limits the district's major source of revenues, has recently been far below the inflation rate of educational materials.

There will be non-recurring expenditures to be budgeted, such as purchases of computer equipment and textbooks. These are major decisions that affect educational program planning. Therefore, it is timely for the board of education to discuss the rationale and financial implications of the decision by the middle of the year. Boards especially want to be involved in decisions with curricular impact and those concerning major expenditures.

Late fall is the time to develop a preliminary budget for major building repairs, remodeling and equipment needs for buildings and transportation.

Table 7 – Model Expenditure Budgeting Calendar

Fall

- Project enrollments and teaching staff.
- Develop revenue estimates for following year.
- Develop a "no change" budget.
- Update long-term revenue and expenditure projections.

Fall/winter

- Cost-out and decide on new programs or expenditure reductions.
- Develop allocations for instructional supplies.
- Consider priorities for textbooks, equipment, building repairs, buses and other capital items.

Winter

- Begin process of teacher assignment and update staff budget.
- Refine next year's revenue projections.
- Compile a total expenditure budget and compare with revenue.
- Make decisions on major expenditures as bids are received.

Spring

- Make remaining decisions on instructional program changes and related budget items.
- Adjust salary budgets in line with staff numbers and contract negotiations.
- Update revenues as tax revenue and state aid information becomes available.
- Revise the compiled budget for updates and changes.

Summer/early fall

- Formal budget consideration, public hearings and adoption take place.
 - Begin fall budgeting activities for the following year.
-

Planning for these items must be underway by early winter to allow for specification development, bidding and evaluating bids. When actual costs are known, the projects can be prioritized and contracts awarded on a schedule to allow for the completion of projects and acquisition of equipment in a timely way. This is a good time for a report to the board of education on the state of the buildings and needed major repairs for the coming years, with immediate priorities identified.

In the calendar described above, the major planning premises for the budget have been placed before the board of education by the middle of the school year. The board may not be able to consider and make decisions on all of them by this time, but the budget planning agenda will have been laid out and the necessary decisions identified.

One way to organize these discussions is to develop "planning premises" that summarize historical understandings about the budget along with current information pertaining to programs, revenues and expenditures. Such premises might include statements like the following.

Revenue Premises

- The tax cap will limit revenue to less than the needed amount.
- No change is expected in the level of state funding.
- There is need to identify alternative sources of revenue, i.e. grants, user fees, etc.
- Long-term revenue projections are to be developed to guide consideration of a referendum to increase tax rates.

Each premise can be detailed on one page to include expected amounts of tax revenue, state and federal aid, legislative proposals under consideration and the types of borrowing options available.

Expenditure Premises

- Although enrollment is increasing, maintaining present class sizes will be considered a major priority throughout the budget process.
- Hiring decisions will seek to create a wide range of experience among faculty members.
- Supplies and materials budgets will increase relative to the Consumer Price Index as used for property tax cap calculations.
- Special education programs are to be reviewed to ensure that each student is receiving the most appropriate education at the most effective cost.
- The district's commitment to technology is ongoing.
- Money for maintenance of the buildings will be provided to protect this important capital asset.
- Custodial contract negotiations will affect the budget.

As with the revenue premises, each expenditure premise can be detailed on one page. Each item represents a board of education decision that is required before budget planning, staffing and purchasing can proceed.

In the Spring and Summer

As updated revenue information becomes available and expenditure decisions are made, the results are recorded in a continuously updated budget. It reflects final staff needs, hiring decisions, the outcome of contract negotiations and purchases. At this point, budgeting becomes a matter of compilation in the business office rather than decision-making. Although unexpected revenue changes and unforeseen expenditures due to enrollment increases, unanticipated special education costs or emergency building repairs can affect the budget at the last minute, the well-developed and communicated budget will contain no surprises by the time of its formal adoption in the fall.

17 / BUDGETING THE ELEMENTARY SCHOOL

This chapter describes a process for budgeting expenditures for an elementary school district and its individual buildings. The techniques are "process-neutral," in that they apply in centralized or decentralized management situations, and are necessary to developing an accurate description of the costs of the school program.

Projecting Enrollments

The 1990's saw a dramatic change in school enrollment patterns in many areas of the state. For almost two decades enrollment decreases, reductions in force and school closings dominated school planning. Now the so-called "baby boom echo," generational housing turnover, a rising number of immigrant families and development of new housing in the "outer ring" of the state's metropolitan areas have contributed to large increases in enrollments in many districts.

Rates of change vary widely. Enrollments in some small, older, inner-ring suburbs are increasing slowly, or have remained in the low range to which they fell during the "baby bust years." Other older communities have experienced an increase in the percentage of their students who are immigrants and in need of intensive language instruction.

Enrollments are increasing at a rapid rate in outer-ring districts, where farmland has been turned into tract housing. "Suburban-urban communities" such as Aurora, Elgin, Joliet and Waukegan are experiencing increases in enrollment from development of land in their outer areas and from migration of so-called "ethnic minorities" to those cities. Affluence has increased the demand for housing for younger families on the North Shore and other suburbs where expensive housing and settled empty-nesters caused dramatic enrollment declines in the 1970's and 1980's. While some

rural areas and downstate cities continue to experience a decline in enrollment that began years ago, other cities and their surrounding areas are seeing increases due to development and immigration.

It is essential for administrators to be able to discern and project the population trends in their districts and in each school attendance area. Inaccurate projections can quickly lead a district into financial difficulties, classroom shortages (or overbuilding) and a loss of confidence by the community in the school's leadership. Trending recent changes will suffice if the school's student population is stable or changing slowly. Demographic consultants can research factors related to population changes, apply them to a particular community, and project trends and enrollment ranges for the coming five to ten years.

Both short and long-term projections for elementary schools are more difficult than for high schools, since they must anticipate future births and deal with the fact that many young parents move as their children approach school age. Demographers use a variety of techniques to develop long-term enrollment projections, selecting their tools according to the characteristics of each community.

The most common approach is the "cohort survival" technique. Cohort survival is a method for analyzing recent change trends and projecting them into the future. The simplest form of cohort survival projections measures the changes over the past three to five years in each class-age group (cohort) as it moves through the grades and projects those rates of change into the future. Simple cohort survival projection yields accurate year-to-year projections for individual buildings and the district unless there are housing developments or other factors causing rapid population changes.

Like all projection techniques, cohort survival

is less valid beyond three years, and long-term enrollment projections must be updated frequently. Demographers develop ranges of long-term projections, showing what will happen if present trends continue, if the rate of children enrolling and remaining in the district increases and if the rate of new enrollees and returning students decreases.

A variation of the cohort survival method goes beyond total district and building projections to forecast trends for subpopulations of the district, such as language-ethnic groups, children from poverty-impacted families and other special needs students. Such reports are used by districts with diverse student populations to refine their planning for special needs students and to project the total number of students in neighborhoods impacted by ethnic groups with higher birth rates.

Table 8 illustrates the simple cohort survival method applied to grades K-3 of an elementary school district. The first step is to go back five years to compute trends.

Next, "cohort survival" ratios are computed for each grade transition (kindergarten to first grade, first grade to second, and so on). Inspection of the table shows that some kindergarten classes grew from the fall of the kindergarten year to the fall of first grade. The entering class of five years ago grew from 438 to 467, as the number of children entering the school was greater than the number leaving. However, the entering kindergarten of four years ago, with 470 students, decreased to 460 by first grade. The class of three years ago remained at 464 students, where the classes of two and one year ago changed greatly in opposite directions as they went through the kindergarten to first grade transition.

The "transition ratio" for each grade is computed as follows, using the kindergarten to first grade transition as an example.

School Year	Kindergarten	Grade 1
5 years ago	438	455 (not added)
4 years ago	470	467
3 years ago	464	460
2 years ago	470	464
1 year ago	557	562
Current year	486 (not added)	486
Totals	2,399	2,439

Over the five grade transitions, the 2,399 kindergartners became 2,439 first graders. The ratio of first grade to kindergarten enrollments was 1.017, or a growth rate of 1.7 percent. This is the K-1 transition (cohort survival) ratio. Similar calculations are used to compute the historical ratios for each grade to grade transition. The ratios may be more or less than 1.00; it is common for schools and districts to show different patterns for different grade levels, reflecting moving patterns of families as the children grow older. Changes of five percent or more indicate a strong pattern of enrollment growth or decline.

The transition ratio is the tool for projecting future enrollments. This district has used a pre-school census, community pre-school and child care enrollments, birth data from the Illinois Department of Public Health and perhaps a demographer to project its future kindergartens as shown. Applying the 1.017 multiplier to each projected kindergarten yields projected first grade enrollments as shown in Table 9.

Table 8 - Five-Year Historical Enrollments

Read the table diagonally

School Year	Kindergarten	Grade 1	Grade 2	Grade 3
5 years ago	438	455	450	363
4 years ago	470	467	470	464
3 years ago	464	460	446	457
2 years ago	470	464	450	437
1 year ago	557	562	482	426
Current year	486	486	474	462

Table 9 - Five-year Projected Enrollments*Read the table diagonally*

School Year	Kindergarten x 1.017	≈	Grade 1
Current year actual	486		486
1 year hence	496		494
2 years hence	538		504
3 years hence	512		547
4 years hence	523		521
5 years hence	524		532

The process is repeated to generate projections for each grade. Special needs populations can be estimated by taking their percentage of enrollment for recent years, increasing, decreasing or holding it constant, depending on trends, and applying a percentage figure to compute future years' special population estimates.

As with any statistical procedure, the larger the sample, the more accurate the analysis. Cohort survival projections for an entire district will, in the long run, be more accurate than projections for any one year, or for any one grade or building. Principals especially should be alert for changes in their population trends that suggest modifications in cohort survival projections for their schools, so as to produce the most accurate and useful projections for staffing and other budgeting activities. Principals' research and intuition are essential to developing reliable enrollment projections.

Cohort survival projections are most valid where changes in a community's housing stock and/or turnover of homes are occurring at modest rates. They are less useful in times of rapid growth. Therefore, demographers projecting enrollments in districts experiencing a large amount of new housing construction have developed formulas that relate the size of a new home in bedrooms to the

numbers and ages of children enrolling in schools.

Use of United States Census data for projecting enrollments is most useful for the few years following its availability every ten years. If a community conducts a separate census, the results can be valuable to the schools if the special census breaks down child population by age ranges. Schools report varied success with "child find" surveys to discover preschoolers. Door-to-door surveys miss many young families and others are reluctant to answer mailed questionnaires—or are unable to predict accurately if they will be living in the community when their children enter school. Surveys of local preschools and childcare centers are more useful. Birth data by community are available from the Illinois Department of Public Health, which reports births according to the residence of the mother at the time the child is born.

Some demographers employ area economic data as a projection tool. Especially useful for large districts, these techniques take into account trends in building permits and employment. The results are usually used to modify cohort-survival based projections to take into account economic changes that are likely to impact school enrollments.

Budgeting the Classroom and Special Education Staff

Staff salaries comprise 80 percent or more of most school budgets. Timely and accurate staff budgets are essential to the fiscal health and morale of the school. Their preparation is followed avidly by school staff members, and inconsistencies and perceived inequities within and among schools can be grist for parent complaints and lengthy board of education discussions.

Staffing is driven by formulas drawn from pref-

Table 10 - Classroom Staffing Guidelines for the Home Valley Elementary Schools
Showing Enrollment and Number of Class Sections

Grade	Normal Range	Maximum Size	2 Sections	3 Sections	4 Sections
Kindergarten	18-23	26	27-52	53-78	79-104
Grade 1	17-22	25	26-50	51-75	76-100
Grade 2	17-22	25	26-50	51-75	76-100
Grade 3	18-23	26	27-52	53-78	79-104
Grade 4	19-24	27	28-54	55-81	82-108
Grade 5	19-24	27	28-54	55-81	82-108

erences for class sizes at different age levels, past practices and collective bargaining agreements. It can also be influenced by the degree of autonomy granted to principals to develop staff plans. An example of formula-based staffing appears in *Table 10*. Assume that the allocations reflect policies adopted by the board of education, past practices and agreements with the union on average class size. Note that the formula includes provisions for teacher assistants.

The chart demonstrates some of the difficulties of budgeting for classroom teaching staff. In terms of enrollment, there are "nice numbers" and "nasty numbers." Take the second grade in the Home Valley Schools. Nice enrollment numbers are even or close multiples of an average desired class size range. If an average size of 20 is desired, nice total numbers of students are 40, 62, 81 and 104. They will produce classes close to the desired average.

Nasty enrollment numbers produce larger or smaller class sizes than desired. They are especially troublesome in small schools. Take a cohort of 52 second graders. You can make two sections of 26 pupils or three sections of 17-18 pupils. Parents and teachers may object to the classes of 26, especially if class sizes in other district schools run around 20. However, the cost of the third teacher and the possible difficulty of finding a classroom for the third section, not to mention setting a precedent for this cohort as they move through the upper grades, is even more troublesome. Administrators therefore seek flexibility in negotiating class size limits, supplementing large classes with teacher

aides, interns and other support personnel.

First section projections for the coming year can be prepared in the fall, based on projected enrollments. However, if the projections indicate an increase in the number of teachers due to students projected to enroll but not yet enrolled, it is wise to budget the position but not staff it until the children actually appear. If a cohort is expected to decrease sufficiently to drop a position but the children have not withdrawn by the spring, it is prudent to develop a plan to reassign or dismiss the teacher, but to keep the position in the budget until the actual enrollment and staff are known at the end of the summer.

Budgeting for classroom and special teachers is intertwined with the school's schedule. A new principal should become familiar with the parameters that impact the schedule prior to staff planning for the following year. A fall staffing projection for an elementary school might look like *Table 11*.

The principal has two problems in staffing the school for next year. This year's fifth grade of 60 students (not shown on table) required three teachers; they will be replaced by only 42, requiring that a section be dropped. The second problem is more complex and involves a "nasty number." Only 51 second graders are expected next year. Putting them in two sections with 25 and 26 students will result in the largest classes in the school. Perhaps a teacher aide could be employed less expensively than adding a third teacher. Having three sections of 17 pupils is educationally and politically more desirable but adds a teacher to the budget as opposed to the two-teacher plan. It will also have

**Table 11 - First Section Projection
Home Valley School
Next Year**

Grade	Enrollment	Sections	Average Size
Kindergarten	72	4	18
First	67	3	22.3
Second	51	3	17
Third	64	3	21.3
Fourth	63	3	21
Fifth	42	2	21
Total	359	18	19.9
(Last year)	380	19	20

ramifications for staffing specialist teachers, as shown in Table 12.

Budgeting for Specialists and Support Staff

The first section projection serves as a starting point if clusters of special needs students, such as included special education students or children in transitional bilingual programs, are to join the regular classrooms. Special education staffing has traditionally related teachers and support staff to the numbers of pupils in a resource or self-contained program. State regulations establish the maximum numbers of pupils in a teacher's "caseload" with additional pupils allowed with the presence of a paraprofessional. Current law and practice call for inclusion of special education and other special needs students in "regular" classrooms. This practice poses additional complications for staffing. Weighting of these pupils or other formula adjustments may be necessary to recognize the impact of special needs students in the classroom staff plan.

Projecting special education enrollments is difficult, and it is common for schools to find themselves under or over-staffed in this area as the

opening of the school year approaches. Children receiving intensive special education services, and enrolled in classes or included in regular education classrooms, are, as a group, a more mobile population than other children.

Principals, pupil services directors and other administrators responsible for special education budgeting and staffing need to communicate regularly with teachers, psychologists and other knowledgeable staff and to track the program plans of each special needs child. Surprises will often occur; a family with several such children will enter or leave the school attendance area, or children will enter the program from another school district. Experienced administrators budget contingency amounts for additional special education staff and tuition that might be required during the school year.

Budgeting for elementary school "special" teachers, such as art, music and physical education, takes into account the number of available weekly teaching periods for these subjects. If there is insufficient need for a full-time special teacher, consider if there are other needed assignments in the school or pieces required in another school that can be effectively filled by the specialist. If not, per-

Table 12 - Projected Specialist Time
Home Valley School
Based on 9 sections per day (45 per week)
Calculated in 30-minute blocks per week

Allotment of Specialist Time in 30-minute Blocks per Week

Subject	Kindergarten	Grades 1-2	Grades 3-5
Music	1	3	2
Phys. Ed.	1	2	3
Art	1.5	2	2

Weekly Sections

Grade	No. of Sections	Music	Phys. Ed.	Art
Kindergarten	4	4	4	6
First	3	9	6	6
Second	3	9	6	6
Third	3	6	9	6
Fourth	3	6	9	6
Fifth	2	4	6	4
Total	18	38	40	34
No. days/week		4.2	4.4	3.8

haps the position can be budgeted at less than 100 percent.

A staffing projection for special subject teachers at the Home Valley School might look like *Table 12*. Note that the assignments begin with the specified time allotments for each subject for each grade, as spelled out in the school district's curriculum. Principals must be prepared to resist demands from specialist teachers to exceed these district-determined allotments at times when lower enrollments result in less than full-time assignments.

The budget for many support positions is usually independent of building enrollment. Principals, secretaries, health staff, librarians, psychologists, social workers, speech therapists and resource teachers are often allocated on a per school or caseload ratio basis, although non-teaching specialists may serve two or more schools.

Under some models of building-based budgeting, a single staff allocation would be created, from which the school's decision-making process would select classroom and specialist positions configured to meet the needs of its population. Such "wide open" staffing arrangements are rare, since practice, contract provisions and state certification rules speak to traditional arrangements. However, more school systems are permitting limited trade-offs of specialist staff for generalists or specialists from other disciplines.

An up-to-date budgeting procedure manual is a valuable resource for building and district administrators. Such a manual incorporates staffing formulas and related board policy and negotiated agreements, as well as procedures and allocations for non-personnel items. A new administrator should study it before the budgeting cycle begins. If there is no such manual, review of the budgeting communications and reports of the school for the past year will reveal much of this information. A meeting with the business manager to discuss the budget process will also be valuable.

It is the responsibility of the district business office to aggregate buildings' staff plans and develop a total salary and benefits budget for the coming year. This is one of the most critical budgetary steps, for methodological errors will result in discrepancies between what is budgeted and what will be spent on salaries. Factors that must be considered are:

- Changes in the number of teaching positions

- Resignations and leaves of absence
- The salary range of replacement teachers
- Step increases and lane advancements for returning teachers
- General increases in the salary schedule

Omitting one or more of these considerations generates large errors in the salary budget.

It is suggested that administrators responsible for salary budgets attend workshops on aggregate salary budgeting, which cover the logic and complex mathematics of calculating year-to-year salary budgets. School law firms frequently include this topic in their training workshops on negotiations, since estimating the budgetary impact of alternative salary proposals and settlements involves the same costing techniques as aggregate salary budgeting.

Budgeting Supplies, Services and Equipment

Allocation formulas and procedures for non-personnel items reveal much about the budgeting philosophy of the school system and the authority of the school to make non-personnel budgeting decisions. In centralized budgeting, common formulas allot money to each grade level and special subject in the district. Such formulas look like *Table 13*.

Table 13 - Home Valley School District
Allocations for Elementary School
Expendable Supplies
(Excludes district-supplied textbooks)

Grade	Allocation per Pupil
Kindergarten	\$50
Grade 1	60
Grade 2	55
Grade 3	55
Grade 4	45
Grade 5	45
Subject	Allocation per Pupil in Building
Included special education students	\$70
Art	10
Physical education	8
Music	4
Library	30

Note: District-wide textbook adoptions are budgeted in a central account in addition to these amounts. Textbooks for new students will be furnished from the central textbook warehouse.

Under building-based budgeting, principals have autonomy to modify the centrally-determined grade level and department allocations, as long as the building's total allocation is not exceeded. In an even more decentralized form of building-based budgeting, the district office would compute a total building allocation based on each school's enrollment, and the principal would advise the central office how the money is to be distributed among the grade level and departmental budgets.

Some districts begin the budget process without fixed allocations, requiring each school to propose and justify budgets for non-personnel items. The budgets and justifications are reviewed by the central administration or perhaps by the entire administration, including the principals. Limits are then set, considering both the district's revenue situation and the priorities of the entire district and each school. While more democratic in appearance, such a process can lead to differences that are perceived as less equitable than formula-driven allocations.

Budgets for one-time purchases, such equipment and other "capital items," often compete for the small amount of the annual budget that is truly discretionary. Such decisions are, therefore, often made last, following considerable administrative discussion and weighing of priorities. Boards of education tend to participate actively in decisions

on capital purchases. Such purchases are often part of a multi-year plan, such as for updating technology, and it is good practice to budget such items on a multi-year basis. This helps establish their priority position in subsequent years' annual budgets.

Textbook adoptions and other budgetary decisions that follow a curriculum or program study process also require time for staff, administration and board of education to weigh the need for these items along with other competitors for discretionary budget dollars. Since textbook adoptions should, for maximum budgetary value, be coordinated with the deadlines for ordering books through the Illinois Textbook Loan program, the annual budget calendar should call for these decisions to be made in the fall or early winter.

The budgeting philosophy for a school should be reflected in the monthly reports that are made available to principals and teachers. Otherwise, communication and accountability on budgetary resources cannot take place efficiently. If the unit of budgeting is the grade level, the accounting system of the district should produce reports showing budgets and expenditures-to-date for each grade, especially for the non-personnel items over which the principal and teachers have control. As budgeting becomes more decentralized, the accounting requirements become more complex. However, budgeting/accounting technology exists to support such decentralization, providing an important measure of accountability and control.

18 / BUDGETING THE SECONDARY SCHOOL

Introduction

This chapter describes how the budgeting steps described for an elementary school differ in their application to middle/junior high and senior high schools. The budget process in secondary schools, due to their larger size and departmental organization, is usually characterized by greater faculty participation, especially for non-personnel items. High school budgeting derives from the course of study which, in contrast to the curriculum of elementary and junior high schools, undergoes frequent review and changes in accordance with trends in student class selection.

Enrollment Projections and Staff Budgeting

If a district contains only one middle/junior high school, drawing from all of its elementary schools, the cohort survival projections used for the elementary grades will serve to generate accurate enrollment projections. Special education students counted separately in elementary enrollment reports will need to be factored into planning in accordance with the junior high's programs. Larger districts with two or more middle schools can aggregate the projections of the feeder schools to each building and should be alert to trends that may signal increases or decreases in enrollment in specific junior high facilities.

The starting point for high school enrollment projections are the cohort survival projections for the lower grades, which are extended to generate ratios through grade 12. Multi-campus high schools that draw from several junior highs or school districts require regular analysis of geographical trends within the district, to determine the need for future boundary adjustments or construction. Adjusting school boundaries is a complex and time-consuming communication process, and

the lead-time for constructing new facilities can be three years or more.

Projecting high school enrollments differs in one important respect from the lower grades. Historical projections by department and course are also required for staff planning, since high school teachers are generally certified in only one or two areas. The example below, from a large high school, shows how the historical enrollment of one department is broken down for budget and staff planning.

Central Valley High School Enrollment/ Staff History—Mathematics Department

Year	Total Students	Class Sections	Staff (FTE)
3 years ago	2885	125	25.4
2 years ago	2945	127	25.6
1 year ago	3019	129	25.8
Current year	3110	130	26.0

Central Valley High School Enrollment— Freshman Advanced Mathematics

Year	Fall term	Winter term	Spring term
3 years ago	200	180	170
2 years ago	215	190	180
1 year ago	230	205	195
Current year	240	210	200

Since these are freshmen, the numbers of students in the "average" mathematics class would have increased as students dropped down from the advanced classes. It is common for enrollments in advanced classes, especially in freshman sections, to decrease and those in average-level classes to increase in the fall as those students (or parents) who are stretching the limits confront reality.

The first table shows that total mathematics class sections and department staff have increased in approximate proportion to enrollment. This will not always be the case, for enrollment increases

and decreases create plateaus when staff adjustments are not possible, and students can or must be scheduled within the same number of sections. Therefore, budgeting secondary school staff focuses on the total school student-teacher ratio, and must be done in concert with development of the school's course book and master schedule.

Aggregate enrollment, registration and staff numbers commonly change at different rates. The total number of students may increase 2.5 percent, but the total number of class registrations may increase by 4 percent, reflecting a shift in the average number of courses taken by students in excess of their graduation requirements. Changes in the drop-out rate, trends in summer school course enrollment, and the number of students graduating at the midpoint of their senior year must also be considered in scheduling and staffing, as must special education and other special needs programs for the school's various subpopulations. Combined with the realities of scheduling, this school's 4 percent increase in section registration might require a total staff increase of 5 percent or more. This is the figure that the district administration must deal with in developing the school's total staff budget.

Budgeting Instructional Materials at the Secondary School

Secondary school department heads have a greater influence in determining the specifics of the non-personnel budget than is the case for most elementary teachers. District control over the budgets for instructional materials, services and equipment may be exercised by determining the aggregate amount for each campus. Principals assume responsibility for allocating the aggregate budget among the school's various departments and priorities. The school's administrative team and depart-

ment heads may act as a group in making or advising on such allocations.

In a more centralized approach, each department makes its annual budgetary case to the principal and district office, who must sift through the priorities and make the budgetary decisions. In either case, decisions on major expenditures, especially capital items, usually require board of education discussion and approval. Even in a centralized budgeting approach, decision-makers are well advised to consult with department heads who have knowledge of the increasingly varied and changing high school curriculum and its needs for specialized materials and equipment.

The principal and, if there is one, the administrator for curriculum play a critical role in long-term budgeting for high schools. They are knowledgeable of the "big picture"—trends in department curricula, total enrollments, student course selections, accreditation standards, college admissions requirements, teacher preparation and competencies, and the many other factors that enter into planning the high school program. It is important, therefore, that they understand the school district's total financial picture, the costs of the school's various programs, and especially the cost implications of changes, both those proposed internally and those imposed externally.

A secondary administrator or department head new to budgeting responsibility should examine the supporting documentation and communications behind several recent years' budgets as a guide to building a timetable, data base and procedures for future budgeting. Examination of practices in other schools is useful, especially when the new administrator is undertaking a change in the school's budgetary decision philosophy. The National Association of Secondary School Principals, www.nassp.org, offers publications on budgeting and related secondary school management activities.

19 / BUDGETING NON-INSTRUCTIONAL AND CAPITAL COSTS

Introduction

On average about three-quarters of a school district's operating budget consists of teachers, instructional support staff, educational materials and equipment, student services, principals and their office expenses, and the costs of staff development and curriculum planning.²⁰ The remaining quarter of the budget goes for building operation and maintenance, food services, transportation, central administration and insurance. The non-operating portion of the budget includes payments for principal and interest on debt and expenses for major building projects and other capital projects.²⁰

This section discusses the methodology of budgeting for non-instructional costs. Such budgeting is normally the responsibility of the district's financial officer, in conjunction with directors of buildings, food services, transportation and human resources. Also included are suggestions for managing the costs of building, transportation and food services.

The periodicals *American School Board Journal*, published by the National School Boards Association, www.nsba.org, and *School Business Affairs*, published by the Association of School Business Officials International, www.asbointl.org, contain excellent articles on managing and budgeting building operations, transportation and food services. Helpful resources specific to each of the support services are included.

²⁰ National budget statistics in this section are taken from the results of the School Budget Survey conducted by Educational Research Services and published in *School Business Affairs*, October 1997.

²¹ Because these costs vary considerably among school districts, they are not included in the base budgets comprising the ERS average budget. The national average for annual debt service and capital costs is approximately 14 percent above the total operating budget without such costs included.

Building Operating and Capital Project Costs

Building operations and maintenance consume, on average, about 10 percent of the school district's total budget. This is a national average; costs in areas of extreme climate tend to run higher, with the difference accounted for in energy costs. Urban areas with higher wage rates and a prevalence of unionized building staff also experience costs that exceed the national average.²¹

Budgeting for building operating and maintenance costs must be accompanied by active management to assure that the ever-scarce share of the budgetary pie available for the buildings is best spent in the interests of the educational program and to preserve and protect the building structures and systems. The building budget must also provide contingency amounts for the unexpected repairs that will inevitably be required.

On average, custodial staff-costs account for about 40 percent of the budget for building operations. Budgeting these costs begins with trending past salaries, taking into account collective bargaining agreements and area wage trends. It is good practice to evaluate the efficiency of these services periodically. A well-managed custodial program will have clearly defined schedules of daily, weekly, monthly, quarterly and annual cleaning tasks.

Building directors and principals should work together to determine the degree to which the day and evening staff are aware of these duties, and the extent to which they are trained in them and are actually performing them. Even well trained custodians can be inefficient in tasks for which they do not have adequate equipment. Less visible tasks,

²¹ Periodic national and regional surveys of building operating costs are published in the journal, *American School and University*.

such as "high dusting" of lamps, and changing filters in heating equipment, are often neglected. Poor maintenance of filters and motors is a common and preventable cause of heating/cooling system failure.

Cleaning staff productivity can also be assessed against productivity benchmarks. On average, a full-time custodian is responsible for approximately 21,000 square feet of interior space. This figure includes grounds care, except for high schools, where additional staff is required to care for athletic fields, parking lots and other outdoor facilities. Where budget constraints require that custodians service larger areas, consideration can be given to cleaning lightly used rooms on a less-than-daily basis, or identifying cleaning tasks that can be performed periodically by contract firms.

Contracting custodial services will tend to reduce labor costs, but issues of supervision, compliance with standards and efficiency must be considered when evaluating the pros and cons of contracting. Some districts will use district-employed staff during the school day and employ contract cleaners for evening work, perhaps employing a night foreman in high schools and other buildings with heavy evening use by student and community groups. As with all other contracts, the development of specifications and standards of performance is critical to gaining the cost savings from contract cleaning without harming the condition of the building.

Maintenance consumes about 25 percent of the average building operating budget. A commonly used guideline for staffing the maintenance department is one position for each 150,000 square feet of building space. Districts commonly employ a mix of in-house and contracted personnel to perform specialized maintenance and repairs. Determining the best mix is difficult, since both old and new buildings frequently contain undiscovered conditions that cause regular surprises. The days of the "jack of all trades" maintenance person are fast disappearing. Heating and cooling equipment and controls are increasingly complex and computer-driven, with specialized repair requirements best performed by an outside company. Custodians can be trained to perform minor electrical and plumbing repairs and lock work, but major projects require expertise and equipment not found in most school maintenance departments.

Computer maintenance-management pro-

grams are available to assist building directors in scheduling preventive maintenance, in managing work orders and accounting for staff time. Use of such programs facilitates efficient utilization of the maintenance budget. Regular analysis of the productivity of in-house maintenance staff is essential to determine whether some of their work could more cost-effectively be performed by less expensive staff or by contractors.

Commonly performed maintenance staff work that could be less expensively performed includes "convenience projects," such as installing cabinets or shelving; aesthetic improvements, including painting; audio-visual equipment repair; or transporting equipment between schools. Purchasing ready-made cabinets, deferring painting until it can be performed by summer staff, or employing delivery drivers could free up maintenance funds for the inevitable major work that keeps a building and its systems functioning well.

Supplies and utilities account for the remainder of the building operating budget. Careful attention to the quality and management of custodial supplies is necessary, for over-ordering and vendor abuses are common in this area. Standardization of quality products and central purchasing and distribution will work to contain supply expense. Utility budgeting involves the uncertainties of predicting the weather and the volatile market for electricity and heating fuels. Average utility expenditure ranges from 25-30 percent of the budget for building operations. Keeping and studying records of utility consumption by building by month will identify operating inefficiencies or equipment malfunctions that contribute to higher costs and may identify a safety hazard. Records will also assist the building budget administrator in projecting costs for the coming year.

Costs of electricity and fuel fluctuate with national and world market conditions as well as with climate variations. Good budgeting practices include looking at climate and consumption data and utility expenses over a three-to-five year period and building in contingency amounts in the event of unusually hot or cold weather or a sudden spike in prices. Otherwise, money will have to be found in other budgets during the year to pay for utility costs. Fuel and electricity-purchasing cooperatives are increasingly being used as techniques for reducing utility costs. While effective, they carry management requirements on the part of the

school district to maximize the potential cost savings. Information on the Illinois Energy Consortium, a joint project of the Illinois Associations of School Boards, Administrators and School Business Officials, can be obtained on www.illec.org.

Major repairs tend to occur in cycles of 15-20 years in the life of the building. Budgeting for those repairs begins a year or more in advance, and should begin with preparation of a report of the condition of the exterior “envelope” and the interior systems of each building. Such a report should reflect the observations of the district’s building director and architect, but should draw heavily on the observations of custodians, principals and teachers, especially teachers who work in science labs and other maintenance-intensive facilities.

The building condition report identifies needed repairs, their costs, and anticipated schedule over the coming three-to-five years. A priority ranking system should be employed as an aid to later budget decision-making. Such a system might prioritize work as:

- a) Necessary to student safety and building integrity
- b) Required to meet environmental or building laws
- c) Necessary to meet educational program requirements
- d) Preventive maintenance
- e) Aesthetic improvements

Roof and boiler replacement would fall under (a), replacement of a fuel tank would come under (b), wiring for the computer lab would be in category (c), coating the parking lots would fall under (d), and painting the gym would be classified under (e).

Budgeting major projects begins with obtaining estimates or bids for the highest priority projects and working through and balancing priorities until the available funds are committed. Since the interests of several buildings are involved, the decision-process on building repairs and projects is complex, and the board of education should be apprised on a regular basis of anticipated budgetary needs and suggested priorities for building projects. Otherwise, the board is faced with deciding on individual bids in the order of their presentation, without voice as to the “big picture” needs of all the district’s buildings.

The book *Good School Maintenance*, published

by the Illinois Association of School Boards, is a valuable reference for managing cleaning services and maintenance. An appendix includes a wide variety of management tools that can be reproduced “as is” or readily adapted for the local custodial manual. It includes forms, checklists, inspection reports and other tools essential to effective school maintenance. The book is available from the online bookstore at www.iasb.com.

Transportation

On average, transportation costs consume four percent of the total operating budget. There are wide variations; rural districts’ transportation expenditures run higher, while small suburban districts may transport only a few special education students. Transportation is both labor and capital-intensive. Costs of both vehicles and labor are increasing at a rate greater than inflation. A standard-sized “no-frills” bus costs \$50,000 or more. Larger-capacity buses with “transit” flat fronts are approaching the \$100,000 range.

Districts throughout the country are experiencing a severe shortage of bus drivers. Higher license qualifying standards have contributed to this shortage. A part-time job in some, school bus drivers are leaving for higher paid jobs. Schools are responding by increasing salaries and benefits, adding work in transportation or other departments to increase total wages, and making their transportation operation more efficient.

State subsidies for “regular transportation” are calculated on an equalizing formula only for students who live more than 1.5 miles from school or who live within areas that have been designated as “hazardous” for walkers to school. Wealthy districts receive a subsidy as small as \$16 per student per year, far less than the cost of transporting the student. Many districts offer optional fee-supported transportation to students who live within 1.5 miles, often specifying a distance around the school where optional transportation is not available. Rapidly rising fees for optional transportation has been one obvious budgetary consequence of the rising costs of transportation.

Boards of education in districts which offer fee-supported transportation are faced with a budgetary policy decision as to the proportion of transportation expenses that is to be supported with property tax revenues. Transportation levies are limited by state-specified tax rates. In tax-capped

districts, there is annual pressure to favor education fund rates at the expense of those for buildings and transportation. The tax cap has caused many districts to increase the proportion of transportation costs to be funded by fees. Fully costing the program is essential to determining the tax and fee revenue necessary to operate the program.

The following points and procedures will assist the administrator responsible for planning and budgeting the transportation program.

- Begin with an analysis of the efficiency of the present program. If a 65-passenger bus (at three to a seat) is running to an elementary school with only 25 passengers, look for options to consolidate the route with other underutilized buses. It can easily cost \$40,000 or more in personnel and vehicle costs to put a bus and driver on the road for a year. Each vehicle and driver saved is a substantial reduction in the budget.
- Examine the impact of school schedules on transportation costs. Staggered starting and closing times permit additional trips for much less cost than adding vehicles and drivers. "Double runs" where buses make two runs to a school in the morning and two in the afternoon also save money, but create supervision problems. However, the lemon of double runs can be turned into lemonade by offering daily early morning trips for students participating in activities or early library/computer lab and late trips for after-school activities. These measures will take some ridership pressure away from other runs.
- The most efficient transportation system serves elementary, middle and high schools with the same vehicles. Contracting transportation maximizes the opportunity for efficient vehicle utilization by more than one district, although it will impose scheduling restraints. Contracting versus in-house operation is a question with many facets, and each of them deserves examination before making a decision.
- Be realistic about personnel costs. In addition to salaries, there are state-required pension costs, social security and Medicare contributions, mandatory physical examinations and drug tests, initial and annual training requirements and license fees. Liability, workers' compensation and vehicle insurance costs increase with the number of buses operated.
- When the labor market permits, hire as many drivers as possible on a part-time basis, with a cadre of full-time drivers to cover noon-hour kindergarten and field trips.
- Control special education transportation costs. Although 80 percent of these costs are reimbursed by the state, the relatively few riders on each special education vehicle make transportation a very expensive "related service." There is a trend of decrease in transportation costs as a proportion of total special education costs, as students are included in regular school programs. The transportation administrator should work with the special education staff to develop cost-sensitive guidelines for when special transportation is necessary and work to maximize vehicle utilization within reasonable riding time limits.
- Consider frequent, even annual, vehicle replacement, or leasing as opposed to purchasing buses. Like automobiles, buses go through periods of high maintenance cost approximately every 30,000 miles. Districts that keep their buses only for the warranty period reduce maintenance costs substantially and can make do with fewer spare vehicles, since breakdowns are infrequent. Leasing buses provides greater flexibility in adjusting fleet size to ridership each year and reduces the "hit" on the capital equipment budget when a large number of buses must be replaced.
- Charge school budgets for field trip and sports and other extracurricular activity trips. Many of these costs will pass through as participant fees, reducing the drain on scarce budget revenues.

Transportation services remain highly valued by the community in this age of two-earner or single parent families with complicated morning and afternoon schedules. While educators rightly resist being the tail of the transportation dog, creative management and efficient budgeting will in the long run enable a timely and safe bus operation and prevent the transportation program from raiding educational resources.

The Illinois State Board of Education at www.isbe.state.il.us/finance offers an extensive list of resources on the operation and financing of transportation programs, including manuals for bus driver training, bus route safety evaluation information, procedures for approval of hazardous

areas eligible for free transportation, and procedures for state reimbursement. Information pertinent to transportation operations and safety can also be found in *School Transportation News*, available on www.stnonline.com and on the web sites of the National Highway Traffic Safety Administration, www.nhtsa.gov and the National Coalition for School Bus Safety, www.ncsbs.org.

Food Services

The budgetary goal of school food services is a break-even operation from student and adult receipts and federal and state subsidies. By state regulation, deficits in this program must be made up from the Education Fund. This fact has given districts special impetus to assure that breakfast and lunch programs meet their expenses from program revenues. Few districts can afford to subsidize meal programs, although boards may opt to do so.

Districts have increasingly turned to management services to operate their food services programs. The discipline of periodic competitive bidding serves to control costs, and the purchasing power and generally lower wage and benefit costs for contractors' employees contribute to balanced budgets at affordable fees. Administrators must prepare the annual budget for the program, with the starting point being the per-meal cost charged by the current contractor.

The following points and procedures will assist the administrator responsible for planning and budgeting the food services program.

- Pay frequent attention to the menu. Much of the lunch program budget consists of fixed costs for labor and equipment, and additional food sales are "money in the bank." Children's tastes vary and the more diverse the school district, the greater the impact of ethnic group preferences and strictures on sales. Districts are offering filling and economical options for children who observe vegetarian, low fat and other "non-school-lunch-traditional" diets. While secondary schools are more readily able to offer a variety of meals each day, even elementary schools can offer two or three options to attempt to capture a larger share of the student body's lunch business. Regular consultation with parents and students will enlighten the budget administrator on means of increasing sales.
- Consider breakfast programs. Once largely the

province of poor schools, these programs are increasingly popular, especially where early starting times have been required by enrollment growth. Elementary schools are finding children arriving at school with minimal or no breakfast as hectic family morning schedules eliminate this meal. Since much of the cafeteria labor is in place to prepare lunches, breakfast prices can be established to cover food costs with a small increment for supervision and equipment.

- Eliminate unnecessary kitchen equipment. Older school kitchens were built for the menus of 30 to 40 years ago. Large ovens, mixers and freezers may no longer be necessary to prepare current items. Some districts designate one or two central kitchens and equip and staff them to prepare meals to be "satellited" to smaller schools. Substantial savings in labor and equipment costs result; however menu items that do not transport well may have to be eliminated.
- Use federal and state subsidies. The regulatory hand on school lunch menus has loosened in recent years, eliminating one of the problems that caused schools to leave the federal program in order to vary menus to suit local tastes. Food and money subsidies work to contain cash register prices, since current subsidy rates cover not only the cost of food, but also a share of fixed labor and other costs applicable to all lunches.
- Charge the lunch program for maintenance and utilities required to operate the kitchens, which would otherwise be paid from the operations and maintenance fund. That fund, along with other operating funds, is under pressure from higher costs and the constraints of the tax cap.

The American School Food Service Association at www.asfsa.org offers publications on school breakfast and lunch programs. Considerable information on the finances and management of food services is found on the Illinois State Board of Education web site, www.isbe.state.il.us.

Benefits and Insurance

After a period of cost containment and reduced rates of premium increases, health insurance costs are increasing at a double-digit rate. Other forms of employee benefit insurance are experiencing more stable rates, with life and long-term disability insurance increasing in proportion to employee

salaries. In budgeting health insurance costs, financial administrators must examine provisions of employee contracts to determine how future premium increases are to be allocated between the district and employees. If the agreement calls for a constant dollar payment on the part of the district, the burden of increases falls entirely on the employees—at least until a new contract is negotiated. If a percentage division is called for, the district budget must be increased by the rate of the premium increase. In either case, adjustments for increases or decreases in the number of employees must be made. It is important to keep in touch with the health insurance carrier representative for the district so that the budget for this benefit is realistic.

Property, liability and workers' compensation insurance premiums experience cycles of increase, stability and even decrease. Rates reflect individual districts' claim experience, risk assumption strategies (deductibles), industry-wide experience and the money market. Property insurance premiums will rise each year at a rate determined by the carrier's estimate of building replacement costs. If new buildings or renovations have occurred, the effect on insurance coverage and premiums must be allowed for. Regular appraisals of buildings and property are necessary to assure full protection in the event of a catastrophic claim, as well as to meet current accounting standards.³² Periodic reviews of deductibles may reveal premium savings if the district were to assume the risk for minor property damage and burglary claims.

Liability insurance premiums vary over the years according to factors related to carriers' claims experience with schools and insurance market developments. They also increase with increases in enrollment in employee counts. Workers' compensation insurance will also respond to the district's and carrier's experience and increases as payroll increases. Liability and workers' compensation are commonly offered by groups of districts that self-insure some of the coverage. Among those pools are those sponsored by the Illinois Association of School Boards, www.iasb.com. Bids from self-insurance pools as well as commercial carriers should be solicited periodically to control insurance costs.

Debt Service

Honoring scheduled payments of interest and principal on bonded debt is a legal obligation on the school district, and tax levies for this purpose are established at the time bonds are issued for each year in the future when payments are due. County clerks add this levy to the levies adopted by the board of education to be sure the funds are available when required. The budget administrator must consult the schedule of repayments for each bond issue that has not been paid in full, and budget the payments due in that fiscal year. Since levy years and fiscal years do not coincide, the novice financial administrator may want to consult the district's bond advisor in developing this budget the first time. While the levy will occur without board action, budgetary authority to expend the funds is required.

Districts are increasingly making use of other forms of credit, such as equipment leases. These are obligations of the district and payments must be budgeted in the appropriate fund. Bond and interest levies may be used only for repayment of specific debt issues; designation of funds for repayment of leases on computers, copiers, building equipment, buses, etc. normally follows the rules for the outright purchase of equipment. Certain forms of debt involving the "rent fund" carry special rules for repayments, which are established at the time the debt is issued.

A unified schedule of all outstanding debt payments is necessary for preparation of the annual audit and will assist the financial administrator in being sure that all necessary debt payments appear in the annual budget.

Administrative Costs

Consisting largely of salaries and services, administrative costs are relatively easy to budget based on trending the experience of recent years, with adjustments for staff increases or decreases. Central administration budgets also include costs for legal, auditing and other outside services. Nationally, they average five percent of the operating budget, while building administration averages four percent. Allow sufficient contingency amounts for potentially large, unpredictable costs such as legal services. Expenses for special events, including bond sales, major studies, staff development programs and other non-annual expenses, must also be considered.

³² Statement 34 of the Governmental Accounting Standards Board (GASB) outlines these requirements. Information can be found on www.gasb.org.

State law imposes “administrative cost caps” which limit the annual increase of certain non-instructional administrative expenses to five percent. Provisions for low expenditure districts and waivers exist in the law.³³ Certain expenses are exempt; budget makers should be aware of the capped and exempt classifications when constructing central administrative budgets.

Budgeting the district’s non-instructional operations provides an annual opportunity to look for cost-reduction options that shift scarce resources to the educational program. However, many of these options are perceived as disruptive to the school program and/or are upsetting to the school’s patrons. Therefore, major cost reduction initiatives should be planned with an eye to communications to the board of education, principals, staff and public, as well as to affected employees. Otherwise, the acrimony that results may scuttle a promising initiative or be a serious detriment to the climate of the school district.

³³ 105 ILCS 5-17-1.5

Using Budgetary Benchmarks

It is useful to compare a school district’s total budget for the educational program and support services to those of districts similar in type, location and size. Compare the amounts and percentages of the operating budget assigned to the regular educational program, special education, building and district administration, building operations and transportation. Individual district characteristics and priorities will account for some of the observed differences, but the comparisons may reveal areas for study to determine if resources can be shifted to instruction. State law effective on January 1, 2002, requires school districts with web sites to post their budgets, making it easier to obtain comparative cost data.

The Educational Research Services (ERS) offers individually prepared profiles comparing the budget expenditures, staffing ratios and salaries of the requesting district with the data of selected other districts. Information on ERS membership and services can be found on www.ers.org.

20 / LONG-TERM EXPENDITURE PROJECTIONS

Multi-year budgeting and projection are necessary to assure the future of the educational program and support services. It is good practice to develop, in detail, two years' budgets simultaneously. While only the coming year's budget goes through the adoption formalities, the second-year budget reveals if there will be sufficient funds to continue or enhance the program, or if measures to increase revenues or decrease expenditures will be necessary over the coming months.

Districts with stable enrollments or undergoing only slight changes from year to year can prepare projections through trending recent years' expenditures. If enrollments at one or more levels are changing rapidly, the staff and other costs of the affected programs should be projected separately and the results combined with trended projections for other programs.

The financial database should contain a historical report of expenditures organized by the object categories of salaries, benefits, services, materials, capital items and "other" expenditures, such as out-of-district tuition for special education students. The historical information for object-based projections can be found in the column totals at the end of each fund section of the state Annual Financial Report form. If such data do not exist, they should be researched and entered into the database for projections. At least five years' history should be consulted in developing trend projections.

When enrollments have been and are projected to remain relatively stable, accurate long-term projections can be developed by trending forward the object category totals. Projections for five years ahead are common; like enrollment projections, they will be more accurate for the near term than for the long term, and should be revised annually. An example of projections developed from historical trends appears in *Table 14* on page 82.

Salaries and benefits comprise 80 percent or more of the typical Education Fund Budget. First, subtract or add the salaries of departing and replacement personnel from the current year total. This is your base salary number for projections. Then consult the enrollment projections and estimate the changes in staffing that are expected due to changes in enrollment, assuming no changes in class size or programs. Not every increase or decrease in enrollment will require a corresponding change in staff level if additional students can fit in existing sections. However, by using total enrollments, fairly accurate aggregate staff totals will result over the long term. When in doubt, estimate staff numbers on the high side. Include special education and other specialist staff in the projections.

Once the numbers of staff are projected, adjust the salary total by a projected rate of salary increase. Start with the rate of historical salary increases, which reflects negotiated schedule increases and the effect of step increases. Applying this rate to the future may or may not be realistic, because salary settlements can change markedly from year to year. Stay in touch with negotiation results, especially in districts in your geographical area and those of similar financial strength or weakness, and adjust the historical rate accordingly for trending. If a long-term salary agreement has been negotiated, current teachers and projected new staff can be placed on the future schedules and accurate projections developed.

Benefit costs have increased at a much greater rate than salaries. Examine the employee contract for provisions that govern how future increases in health insurance and other benefits are to be shared. Use recent figures for trending health insurance increases; rates have increased sharply over the recent two or three years. The costs of other forms of benefit insurance, such as life and

disability, follow salary rates and can be trended similarly. Remember to include provisions for negotiated retirement plans that involve board payments and the costs of any future benefits to past retirees.

Contractual services, instructional materials and equipment can be projected by trending past budgets, allowing for enrollment changes. While not all needs can be anticipated for a three-to-five year period, errors in projecting these items have less consequence for projected total expenditures than do errors in projecting personnel costs. Include costs for new textbooks and equipment that will be required by curriculum revisions. Allow a contingency for unanticipated needs. Tuition and other expenditures for special education programs are largely personnel-related. Since special needs enrollments are difficult to project, it is prudent to project these expenditures at rates of increase greater than recent trends.

Projections for the operations and maintenance and transportation funds will include salaries for personnel charged to these funds. Begin by project-

ing changes in the numbers of personnel and then follow the same techniques for projecting salaries and benefits as for the education fund. Trending will suffice for services, supplies and equipment. Pay special attention to projecting the costs of major building projects and replacements or changes in the size of the district's bus requirements. A separate projection for building projects that may be eligible for life safety funding may be required, since sources of revenue dedicated to these projects may be available.

Projections for the Illinois Municipal Retirement and Social Security funds will follow the salary projections of non-teaching personnel. Expenditures for Medicare must also take into account the salaries of those teachers for whom the district must make Medicare contributions. Bond and interest fund projections will consist of the predetermined expenditures for debt services for building and other bonds that are outstanding, plus the costs of any lease payments for equipment or other items.

Program-by-program projections may be neces-

Table 14 – Education Fund Expenditures

HISTORICAL DATA (\$ in thousands)								
OBJECT	Year 4	Year 3	Year 2	Year 1	Last year	Current budget	% increase	Avg. % incr.
Salaries	\$5,000	\$5,250	\$5,513	\$5,898	\$6,311	\$6,753	35.1	7.0
Benefits	600	642	687	769	862	965	60.9	12.2
Services	300	318	337	347	358	368	23.0	4.6
Materials	400	412	424	437	450	464	16.0	3.2
Equipment	200	216	233	252	272	294	47.0	9.4
Tuition, other	700	784	878	940	1,005	1,076	54.0	10.8
TOTAL	7,200	7,622	8,072	8,644	9,258	9,920	37.8	7.6
Enrollment	1,750	1,800	1,850	1,900	1,950	2,000	14.3	2.9
Teacher FTE	100	102	104	107	110	112	12.0	2.4

PROJECTED EXPENDITURES (\$ in thousands)							
OBJECT	Current budget	Proj. %/yr.	Next Year	Year 2	Year 3	Year 4	Year 5
Salaries	\$6,753	7.0	\$7,226	\$7,732	\$8,273	\$8,852	\$9,471
Benefits	965	12.2	1083	1215	1363	1529	1716
Services	368	4.6	385	403	421	441	461
Materials	464	3.2	479	494	510	526	543
Equipment	294	9.4	322	352	385	421	461
Tuition, other	1,076	10.8	1,192	1,321	1,464	1,622	1,797
TOTAL	9,920		10,686	11,516	12,415	13,391	14,449
Enrollment	2,000	3	2,060	2,122	2,185	2,251	2,319
Teacher FTE	112	2.5	115	119	122	126	130

sary if some areas of the district or certain age levels of students are experiencing growth or decrease at different rates than others. In this case, develop cost projections for each object in programs affected by enrollment changes. Programs not affected can be projected by trending as described above. The report will show each program increasing at a greater or lesser rate related to its enrollment.

Projections for rapidly growing districts can also be done by program areas. In this case, the costs of new buildings, administrators, support staff, custodians, buses and other costs associated with the new schools must be added to the instructional cost increases required by the higher enrollments.

Since there are many uncertainties in projecting revenues and expenditures, it is common for two or three sets of projections to be developed and discussed by the board of education. Each projection reflects different assumptions about revenue trends, enrollment and related expenditure changes. In presenting projection reports, an accompanying narrative should clearly spell out the assumptions behind each set of projections. Present data in summary tables rather than in

great detail. Use simple graphs to illustrate total revenues, expenditures and the resulting changes in fund balances. If the projections suggest action to increase revenues, such as a referendum or borrowing, spell out the options and a timetable for their consideration and decision.

There are several types of resources available to the administrator who is a novice at budget projections. It is useful to examine the long-term budget projections of districts with enrollment growth patterns similar to your district. If possible, discuss the techniques used with the person who prepared them. Identify the premises used.

Some administrative financial software packages include budget projection tools or the ability to develop two years' budgets simultaneously. Many administrators create their own tools using spreadsheets. Workshops in long-term budgeting are offered by the Illinois Association of School Business Officials, www.iasbo.org. *School Business Affairs*, the journal of the Association of School Business Officials International, www.asbointl.org publishes special issues on budgeting, and that organization's catalog lists several publications on the subject.

21 / EXPENDITURE MANAGEMENT AND CONTROL

Management of expenditures, especially those not directly related to instruction, is an annual responsibility of the board and administration to assure that always-limited resources are put to their most effective use to achieve the goals of the school. When times are tough, expenditure management shifts to a higher intensity, and a systematic plan to review and reduce expenditures is required. At such times, board members and administrators must be ready to deal with personal stress.

This chapter offers suggestions for budgetary processes and communications when tough decisions must be made, and for cost-reduction techniques applicable to educational and support services.³⁴ The final part identifies practices and programs that research shows to be effective and cost-efficient as an additional guide to decisions on resource allocation.

Processes and Communications

- Maintain two-way communications with the community, staff, union leadership and public. These lines are especially important in times of crisis.
- Educate the board, staff and community on the school budget.
- Develop team skills and spirit among the administration and board of education.
- Make it clear that budget cuts are the responsibility of the board and administration, not the result of a plebiscite of special interests.
- Hold periodic brainstorming discussions among administrators and with staff to review ways of operating programs more efficiently.

³⁴ Parts of this list are based on a talk by Dr. Max McGee before the Joint Annual Conference of the Illinois Associations of School Boards, School Administrators and School Business Officials in November 1998.

- Make the budget document understandable. A clearly presented budget lends itself to critical analysis as well as citizen understanding and participation.
- Consider community surveys and meetings, but judiciously, and only if you are prepared to act on the results.
- Look for opportunities to share services and facilities with other public agencies, such as park districts, for the mutual benefit of the agencies and their clients.
- Make budget development a yearlong process, with time to review each of the major assumptions as they are made and to consider carefully the benefits of new expenditures and/or means of reducing expenditures.
- Keep current on new ideas to reduce costs. *The School Administrator* (www.aasa.org) and *School Business Affairs* (www.asbointl.org) have articles on processes and techniques for budget reduction, and for maintaining a positive climate during times of stressful financial decisions. *American School Board Journal* (www.nsba.org) features articles from the school board perspective.

Educational Program Expenditures

- Consider the long-term impact of cuts on students and the long and short-term impact on the budget.
- Perform regular evaluations on programs to examine their costs and benefits, and to seek alternative means of meeting a program's objectives. Use program budget cost data, the results of research and evaluation and productivity benchmarks in making decisions.
- Look at the big picture from time to time. Are the district's schools organized to make the most effi-

cient and effective use of staff, buildings and other resources, or is a study of that question in order?

- Rank expenditures by priority categories, such as: programs mandated by law, services necessary to pupil health and safety, costs for non-mandated programs or other district goals, and those for community services.
- Take the long view when considering the addition of new programs, such as all-day kindergarten and reducing class size. Project the costs out for several years, being generous with your assumptions on expenditures and cautious in your assumptions about revenue—the same attitude to have when doing long-term budget projections.
- Implement no new programs unless they are replacements for existing ones.
- Seek cuts that eliminate “structural deficits.” These are repeating costs or those with built-in annual increases, as opposed to “one-time” savings.
- Establish short-term remediation programs where possible in lieu of placing students in expensive long-term special education, remedial classes and other non time-limited compensatory programs.
- Increase or avoid reductions in class size. Class size is the single most powerful medicine or poison in controlling the education budget. Establish and adhere to class size guidelines for each grade and subject. Use teacher assistants in lieu of additional teachers where class sizes exceed limits by increments that might not require an additional section.
- Monitor the efficiency of schedules of elementary and secondary schools so that unneeded sections are avoided.
- Place special education pupils with low incidence handicaps in district-operated programs where possible, gaining educational benefits as well as savings in expenditures for transportation, overhead and communications required for distant placements
- Perform especially intensive budget reviews on services that are not directly related to instruction.
- Consider school-based management of selected budgetary resources, to place as many decisions

as possible— and as the school is ready to make— close to those who work with children.

Personnel Costs

- Exercise control in hiring and in establishing salary schedules, so that new hires are brought in at the lowest rate required to meet the qualifications for the position.
- Keep current on the market for area salaries in all positions, so that schedules are established and negotiations conducted with knowledge of these markets.
- Project the costs of proposed contract terms over a multi-year period to determine their affordability. Establish multi-year adjustments so as to institute in the early years those components with the lowest cost, postponing higher-cost provisions until later years.
- Exercise control on benefit costs by resisting the expansion of benefits, self-insuring or pooling where cost and risk factors are favorable, and by competitive shopping for insurance coverage. Avoid indexing benefits to salary schedules and percentages of benefit costs. Rather, offer a fixed amount that must be renegotiated in future contracts.
- Use part-time personnel where possible with resulting savings in salary and especially benefit costs. Control overtime and sick and personal leave days.
- Consider retirement incentives where replacement of experienced personnel with lower cost beginners is feasible.
- Contract with other schools or private agencies for professional services, including student services that are less frequently utilized.

Purchasing and Support Services

- Exploit the Internet as a tool for purchasing instructional supplies and other “commodity items” such as office supplies, paper, custodial supplies and furniture.
- Form purchasing cooperatives for supplies and equipment. Solicit donations or low-priced purchases from businesses; form school-business partnerships for mutual benefit.
- Order in sufficient quantities so as to gain quantity pricing, but take deliveries during the year

to reduce storage requirements and retain use of the district's money as long as possible. Eliminate vendors that offer poor services, charge high delivery fees, or are used infrequently. Use limited-authorization purchasing cards which enable staff to make smaller purchases expeditiously and reduce the costs of processing paperwork.

- Plan equipment purchases carefully, purchase quality equipment, such as computers and machinery, and consider "life cycle costs" over the long-term.
- Maintain accurate but efficient systems for inventorying supplies and equipment to control hoarding and over-ordering. Freeze allocations for supplies other than basic all-student materials for one or two years to encourage use of existing materials.
- Control the costs of copiers and other equipment and services that require large initial investments and usage charges.
- Decide if one-time expenses, such as for technology improvements, can be "ridden out," perhaps by reducing costs in the subsequent year to restore the fund balance.
- Consider contracting out non-instructional services (building cleaning and maintenance, food services, transportation) to reduce costs and secure specialized professional management of these functions. Consider the same approach with some administrative services. Benchmark these services against accepted norms relating personnel to enrollment and facilities size and costs in comparison with the total budget.
- Examine administrative and non-instructional personnel job descriptions to identify redundant functions, short spans of control and excess layers of management. Use technology to streamline these functions and to permit management to focus on the instructional program and the most necessary and productive functions of management. Hire generalists rather than specialists where possible, and organize work accordingly.
- Invest in energy-efficient building equipment and lighting, retrofitting or replacing older equipment that is expensive to operate and maintain.
- Avoid short-term solutions, such as cutting back

on building maintenance, which will hauntingly return with higher costs in the future.

- Perform efficiency studies of bus routes and consider altering school schedules or joint transportation services with other districts to maximize the use of school buses and drivers.

Research on Effective Practices

The following practices have been identified in *The American School Board Journal* as researchers' favorite methods of improving student achievement.³⁶

- Recognize that a student's home background is responsible for roughly half of his/her achievement and that high quality pre-school experiences also exert great power on later school success.
- Focus on reading and math, especially acquisition of reading skills in the early primary grades and mastery of concepts before moving to the next level.
- Employ trained tutors to set students on the right academic track, saving money by reducing the need for expensive long-term special education and remedial services.
- Invest in the best available teachers, specialists in their field, and make them more effective at the beginning of their careers through staff development and mentoring programs. Then continue to invest heavily in their intensive professional development.
- Reduce adult-student ratios in the primary grades, especially first grade, through smaller class sizes and/or employment of trained teacher aides. Such measures are effective when teachers are trained to teach in a manner that uses the additional resources effectively.
- Consider the beneficial relationship between smaller schools (1,000 or less for high school and 500 or less for elementary schools) and test scores, student attitudes, student-faculty relationships and ties to the community. If schools must be larger, consider subdividing them into units to achieve the advantages of smaller schools.

³⁶ Rebecca Jones. "What Works; researchers tell what schools must do to improve student achievement." *The American School Board Journal*, April 1998.

- Increase the amount of time for learning by such means as significant lengthening of the school year as well as the school day, by one hour or more. Offer enrichment programs such as before or after-school activities or turn them over to community groups or private teachers who can work with children outside of the school day.
- Set measurable goals and be accountable by evaluating the success of the school in attaining them.
- Consider the "whole school" curriculum; link across grades and subject areas where such organization works towards higher achievement of rigorous and specifically defined goals of skills acquisition.
- Experiment with and evaluate uses of technology in instruction, to identify both effective and counter-productive practices.

22 / LOOKING AT THE BIG PICTURE

Recognizing the Danger Signs

In a report to stockholders in April 2002, the management of Southwest Airlines espoused a philosophy that is good advice for any business or governmental organization. They wrote:

Southwest was well posed, financially, to withstand the potentially devastating hammer blow of September 11. Why? Because for several decades our leadership philosophy has been: we manage in good times so that our Company and our People can be job secure and prosper through bad times....

On September 11, Southwest had the strongest balance sheet and the highest credit ratings in the American airline industry.... A conservative balance sheet and high credit ratings are good, not bad!

Our low costs enabled us to compete efficiently.... Low costs...are good, not bad!

Achieving financial soundness begins with an annual fiscal self-examination; more frequent examination is required if events signal deterioration of revenues or increases in expenditures. As part of its Financial Assurance and Accountability System (FAAS), the Illinois State Board of Education established criteria for determining the fiscal health of a school district, along with procedures for progressive intervention in the financial management of districts that do not meet the criteria considered essential for fiscal solvency.*

FAAS places districts in one of five categories.

- **Financial recognition** is granted to districts that meet all criteria to be considered financially solvent. No active monitoring is conducted by ISBE.

- **Financial technical assistance** is provided for districts that do not meet all of the criteria; it serves as an early warning system of factors that might lead to further deterioration. This status involves analysis of the district's audit and Annual Financial Report, long-term projections and other data.
- **Financial watch list** identifies districts practicing deficit financing due to low fund balances. ISBE staff conducts comprehensive analysis of the district's cash flow, budget and financial management systems.
- **Financial certification** requires that districts develop and adhere to a multi-year financial plan, with periodic reports to ISBE.
- **Financial oversight panels** are created when a district fails to comply with an ISBE-approved financial plan or upon the district's petition for appointment of a panel. The panel assumes authority over the district's financial operations under the supervision of ISBE staff.

FAAS is evolving to include a financial profile that reflects past trends and the interaction of variables that impact a district's future finances. It would include predictions, analysis of the results of operations and analysis of short and long-term debt. When implemented, it is envisioned to serve as the basis for a redesigned accountability structure.

Recognition of the early warning signs of financial difficulty, and implementation of a remediation plan, may prevent the district from reaching even the first level of state certification. It will also provide the time needed for a considered review of expenditure priorities and development of a plan to increase revenue.

The danger signs listed below are even more rigorous than the financial difficulty indicators currently employed by ISBE. They must be considered

* Additional information on FAAS can be found in *ISBE's State, Local and Federal Financing for Illinois Public Schools* and on the ISBE website, www.isbe.state.il.us/finance. Statutory criteria for the surveillance levels are found in 105 ILCS 5/1A-8.

together in the overall assessment; for example, adoption of an unbalanced budget is less troublesome if cash balances are high and/or the deficit is due to capital expenses that will not repeat in future years.

- Adoption of an unbalanced budget for two or more consecutive years.
- Expenditures in an unbalanced budget that are "structural" or have repeating increases built in for future years, as opposed to one-time capital expenditures.
- A cash balance at the opening of the fiscal year that is insufficient, when combined with budgeted revenues, to meet monthly expenditures without short-term borrowing. The threshold depends on the schedule of revenue receipts, but an opening balance of at least 20 percent of expenditures is desirable. The upper limit on the balance is a function of the district's overall financial circumstances and board of education policy.
- Stagnant or decreasing property tax revenues as a result of lack of growth or deterioration in the property tax base.
- The district is subject to the property tax cap, especially if new growth is minimal and the district lacks authority to issue non-referendum bonds.³⁷
- Employee contracts with built-in increases in salary and benefit expenditures that exceed foreseeable increases in revenues.
- Enrollment is increasing at a rate that requires additional staff.
- Shortages of space are developing that require construction of new facilities, especially if a referendum will be necessary to fund the new facilities.
- Building maintenance expenditures are rising as a result of deferred maintenance, the age of the schools and obsolescence.
- The district has engaged in repeated short-term borrowing for program operations and is approaching its legal debt limits, or is using "teachers' orders" as part of its financing strategy.
- Voters have turned down a recent proposition to increase the education fund tax rate or to borrow money for program operation.
- One or more major sources of revenue, other than property taxes, is showing a trend of major decreases, including general state aid or grant funds.
- Financial mismanagement has occurred, including non-emergency expenditures without budgetary authority, budgeting and payroll errors resulting in higher than budgeted expenditures, and misappropriation of funds.

Focusing on the Big Picture

The events above are warning signs, not indicators of financial doom. Districts in financial distress normally get that way over a number of years. While they may budget and spend with restraint, revenues do not keep up with even modest spending increases. Deficit budgeting is not illegal in Illinois and is not uncommon; even the most well-managed district will probably experience a deficit at some time.

It is essential that the superintendent, business official and board of education be able to interpret the school district Annual Financial Report (AFR). The AFR is an audited statement of operations for the previous fiscal year, along with a statement of the district's fund balances. It contains a number of queries designed to signal impending financial difficulty, which may activate the state review procedures described above. *Understanding the AFR*, a publication available from ISBE, identifies the key pages and lines in that report for assessing the school district's financial health.

Inexperienced administrators will want the auditing firm to assist in analyzing the AFR for signs of financial difficulty and to suggest necessary actions for the coming year. The most necessary of these actions is initiation of long-term planning to increase revenues and prompt communication to the board of education, staff and community of the district's financial outlook and options to restore financial health. The Illinois Association of School Business Officials (www.iasbo.org) offers human resources, including experienced business manager mentors and certified public accountants, that are available to assist superintendents and financial administrators in interpreting financial and audit reports.

³⁷ This authority for schools subject to the tax-cap is conferred and limited by the individual district's history of non-referendum borrowing.

Table 15 - EDUCATION FUND BALANCES
HISTORICAL SUMMARY AND FUND BALANCE (\$ In thousands)

	Year 4	Year 3	Year 2	Year 1	Last year	Current budget
Opening balance July 1	\$2,866	\$7,261	\$7,509	\$7,588	\$7,364	\$6,700
7/1 balance/expenditures	40%	95%	93%	88%	80%	68%
Revenues	7,595	7,870	8,151	8,420	8,594	8,796
Expenditures	7,200	7,622	8,072	8,644	9,258	9,920
Operating surplus (deficit)	395	248	79	-224	-664	-1124
Transfer from W.C. fund	4,000	0	0	0	0	0
Ending balance, June 30	7,261	7,509	7,588	7,364	6,700	5,576

In anticipation of a trend of deficits, the district closed its Working Cash Fund into the Educational Fund at the end of prior year 4, thereby increasing the fund balance by \$4 million. The revenue and expenditure projections were developed by trending as illustrated earlier in the book.

PROJECTED SUMMARY AND FUND BALANCE (\$ In thousands)

	Current budget	Year 1	Year 2	Year 3	Year 4	Year 5
Opening balance July 1	\$6,700	\$5,576	\$3,949	\$1,767	\$-1,388	\$-4,861
7/1 balance/expenditures	68%	52%	34%	14%	-10%	-34%
Revenues	8,796	9,059	9,334	9,260	9,918	10,228
Expenditures	9,920	10,686	11,516	12,415	13,391	14,449
Operating surplus (deficit)	-1124	-1627	-2182	-3,155	-3,473	-4,221
Ending balance, June 30	5,576	3,949	1,767	-1,388	-4,861	-9,082

Illinois schools are blessed with a number of "safety valve" measures that enable them to engage in short-term borrowing in hopes of a brighter revenue picture.³⁸ Some of these measures provide cash for only a few weeks or months, until infusions of tax revenue are received. Then the borrowed money must be repaid. Other measures allow a school to borrow money to build a cash balance, and repay it with new taxes. If the district resists the temptation to spend this borrowed money quickly, the cash cushion generates interest revenue and prevents an occasional unbalanced budget from creating a fiscal crisis and program curtailments. It is important in interpreting financial reports to be aware of the extent to which cash balances include borrowed money.

Discussion of the AFR, along with multi-year financial projections, may lead the board of educa-

tion to conclude that a referendum will be necessary. Time must be allowed for a careful process of planning and conducting a referendum to increase tax rates, for usually only three such votes may be held in each two-year election cycle. Additional information on referendum planning is found in Chapter 13.

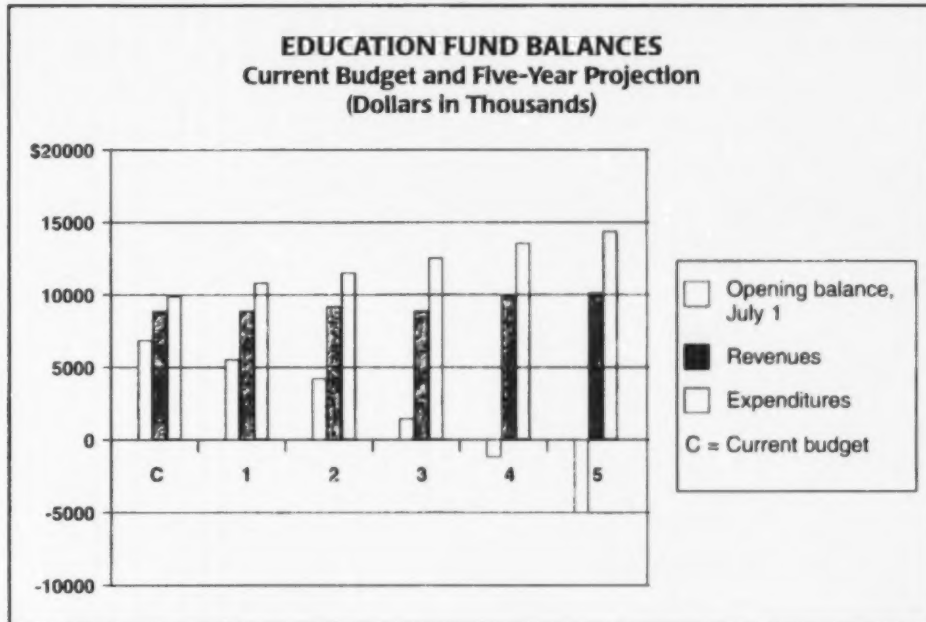
Table 15 and the graph on page 91 summarize the educational fund revenue and expenditure projections that were detailed in earlier sections of the book. (A complete analysis would involve developing tables for all of the operating funds separately and together.) Table 15 includes a shaded line showing the relationship between the opening (July 1) balance in the fund and the budgeted expenditures for the coming year. This percentage measure is a quick guide to determining whether the district may have to engage in short-term borrowing to meet its obligations during the school year, and to the need to increase its permanent revenues and/or reduce expenditures. Notice how the

³⁸ These measures are described in the section on borrowing in Chapter 11.

district, which closed its working cash fund into the educational fund at the end of prior year four, has drawn down the large balance as its deficits rose.

Over the coming five years, rising enrollments and costs that will increase at a greater rate than revenues will reduce the fund balance to the point that borrowing will be necessary beginning in year three, and negative fund balances will occur beginning in year four. The projections serve as an early

warning that planning is required for a tax referendum, working cash bond sale, or for other measures to balance the budget and build up the fund balance. The simplified format of the table and graph help convey this message to the board of education and members of the public.



23 / Looking Ahead

Four interrelated forces are changing budgeting practices and documents. These changes will enable participants in the budgetary process and users of the budget document to better interpret and utilize financial information for the benefit of children. The principal and the budget administrator will develop a new relationship that requires new knowledge, philosophies and skills. The four forces are:

- Changes in educational programs
- Decentralization of school management
- New external demands for information
- Changes in school funding systems

Changes in Educational Programs

The starting point for the school budget is the educational program. Changes in curriculum content and approaches will impact the processes and structures within which future budgeting takes place.

Results-oriented schools will require that costs be related to new initiatives and ongoing programs. The costs of curricular and organizational innovations will need to be identified and tied to anticipated and actual results. This will require development of expanded budget communications and formats. Cost breakouts of broad budgeting categories may be required, along with comparisons of costs and benefits of traditional and innovative—and competing—approaches to improving school performance. The budget administrator will need to be conversant with curricular changes and their implications for personnel and non-personnel costs, as well as the educational benefits sought by investments in change.

Changes in various compensatory education programs will require corresponding changes in account structures. There is renewed emphasis in special education on keeping children in the classroom program. This development has made the

accurate costing out of special education services even more difficult to accomplish. Changes in the long-standing structure of these accounts will be necessary to facilitate allocation of resources in the schools and to strengthen the case for adequate external funding of services for special needs children. The budget administrator will require knowledge of programs and accounting to achieve these changes in account structure.

The diversity of our student bodies requires not one but several approaches to language instruction. A single "bilingual" account is no longer adequate to reflect the costs of different approaches with different philosophies and outcomes. Like special education, many of these approaches are "overlays" on the regular classroom setting, and their funding is shared among local, state and federal levels. Accurate comparative cost identification is a must.

Changes in community priorities and resources will continue to require data to make tough priority decisions. Rare is the school district that has not had to make decisions to discontinue programs due to revenue shortfalls or a desire to implement new programs. These tough and very public decisions are often challenged on the basis of allegedly hastily constructed and faulty financial data. Budget administrators will need to take the lead in developing processes and documents that anticipate such decisions and provide accurate cost breakouts of programs and services, which frequently come under review in times of financial stress.

Decentralization of School Management

Current thinking in educational management emphasizes decision-making at the school level by principals and staff who work with students. Many models of school reform focus on the individual school and encourage a decentralized process of creative mixing and matching of school and com-

munity resources to achieve the school's stated aims for students.

In the process, it may be necessary to let go of certain long-standing beliefs about budgeting and financial management and to develop new methods of internal communications on financial matters. Given well-established building goals and training in making and evaluating financial decisions, there are certain "rules" that may no longer be useful and may even be counterproductive to cost-effective budget management.

These old rules can be replaced with new ways. Why not allow schools to carryover unexpended balances (and deficits) to the next year in order to encourage staff to make thoughtful, long-term decisions on expenditures of discretionary funds, rather than "dumping" money to preserve future allocation levels? Providing incentives to conserve utilities and reduce other overhead costs by allowing the funds to be expended for direct student benefit may require cross-fund budgeting procedures but may also provide a rationale for the eventual consolidation of the operating funds.

Encouraging schools to shop for cost-effective support services, and allowing them to expend the savings, may work to reduce the costs of building, transportation, instructional support—and even some business services that are now provided or allocated centrally.

"Whole-school" staffing approaches, which allocate total staff based on overall and special needs enrollments and leave it to the school to determine the best uses of each staff member, have profound implications for budgeting structures and teacher contracts. There is a growing body of evidence that certain non-traditional, all-school reform models that employ such staffing procedures are able to achieve their goals within acceptable costs.

These forces have profound implications for the budgeting role of the budget administrator, shifting it from the maker of allocation decisions and enforcer of budgetary rules to that of colleague and teacher of the building leadership team. The end is the making of wise, data-driven decisions on the optimal allocation of resources to achieve the school's goals.

To function under such forces, the budget administrator will need a solid grounding in curriculum trends and educational leadership techniques, as well as flexibility in developing and interpreting budgetary/accounting systems for and

with the building leadership. He or she will increasingly be called upon to integrate educational performance data into budgetary and other financial communications to internal and external audiences.

New External Demands for Information

Illinois' program accounting and budget structure was developed in the 1970's, partly in response to the needs of government funding agencies and school systems to track revenues and expenditures for a large number of then-new grant programs. Many districts have elaborated on the "minimum" account structure in state accounting manuals to provide detailed cost breakouts for departments, grade levels and specialized educational programs and support services.

Just as program budgeting evolved in response to external demands for information, new external demands will influence the type of information contained in budgets and other financial presentations. In analyzing school performance and developing strategies for improvement, school performance information will be considered along with financial data. There is a growing body of educational-economic research focusing on relating educational costs to program effectiveness.

Standard and Poor's in 2001 announced its new "School Evaluation Services" as an analytical decision-making tool for improving student achievement and school management. It synthesizes demographic, financial and academic performance factors to measure and assess "the relative return on investment in education," within the context of a school system or individual school.

The analytical framework considers expenditures, student results, return on results from additional expenditures, financial/tax/debt information, learning environment factors and demographics. The end products of this analysis include comparisons with regional and socioeconomic peer schools and statewide practices, and identification of financial/performance trends in the district. Further information on this analytical method is found at www.standardandpoors.com.

Might future credit ratings of a school district take such performance data into account, along with the traditional indicators of community and school fiscal strength? If so, the budget administrator will need to be as conversant with the district's educational program goals and performance trends

as with its financial data.

Standards for exemplary practices and documents for budgeting and financial reporting require information on educational plans and accomplishments, as well as financial information related to these plans. Achieving the Certificate of Excellence in Financial Reporting requires preparation of a Comprehensive Annual Financial Report that combines data and analysis of finances, students, educational program factors, district-wide and school-level program plans and achievement. The Certificate of Excellence and Exemplary Budget programs are administered by the Association of School Business Officials, International, www.asbointl.org.

Such a document is an impressive communication to boards of education, district management and staff, and also to important external audiences such as municipal bond rating agencies. The budget administrator must not only be familiar with educational program planning data but also able to help interpret it to both internal and external audiences—to speak in the language of the educator as well as that of the financial specialist.

Changes in School Funding Systems

In many states the focus of school finance reform has become “adequacy” rather than “equity.” At both the state and district level, the question, “How much is enough?” is being asked. Whether adequacy is addressed in the courts, the legislature, or by individual boards of education, the demand exists for accurate research on the costs of successful programs for students of different characteristics—gifted, average, special education, poverty-impacted or bilingual.

Research on the comparative costs and effectiveness of “whole-school” reform models is essential to selection of a model in districts where reconstitution of the schools, their program and management is being attempted. These developments have implications for the account structure and management of future budgets and for internal and external communications about them.

At the state level, data will be required on the costs of providing an adequate education to students displaying various characteristics. Legislatures will require such data to make decisions on funding levels for “general” and “categorical” programs. Or perhaps the issue will be argued and decided in the courts.

While many states, including Illinois, have “starter data” on such costs, the present budgetary account structure is proving inadequate to identify accurately the full costs of the complex programs required by many of today’s students. “How much is enough?” cannot be answered without better information on “How much does it cost—and for whom—and to accomplish what?”

At the local district level, account structures and reporting must be sufficiently flexible so to provide answers to new questions. Imagine a “child-based” system of allocating resources to diverse elementary schools in the throes of an all-school reform effort. For one school, it may be necessary to align the budget to identify the costs of meeting curriculum standards for “normal” and “gifted” children, and to identify the costs of serving bilingual special needs children from poverty-impacted families. Another school will require a different array of cost breakouts and allocations. On the revenue side, local and external funds may need to be tracked to the school level—or even to the individual student.

Now combine statewide, adequacy-based school reform with a budget structure that focuses on the unique characteristics and needs of an individual building’s student population. Might we see state aid formulas combining general and categorical elements to develop allocations for each building in the state? Business managers and principals would partner in determining the most cost-effective means of budgeting state and local funds to meet the needs of that school and the standards of the district and the state.

The Future Role of the Financial Administrator

Will the school district as it exists today still be necessary in 2020? Imagine largely state-funded education, with allocations to individual schools, in adequate amounts, determined by research-based formulae recognizing the school’s unique population make-up. Continue to imagine state-collected property taxes on regional commercial and industrial property being distributed directly to individual schools. Both of these proposals have been advocated by school finance reformers. What if they were combined? What remains for the local district if its revenue raising and distribution functions are taken over by the state?

Decentralization of school decision making is a

central theme of the school reform movement. Reformers advocate a greater role for parents in school policy determination and emphasize the role of the principal as the key decision-maker in the school. They also point to the school as the appropriate site for delivery of an array of social services to children and their families.

What work will remain for a school district business manager if the revenue raising and allocation functions were reduced, especially if schools were to elect to purchase some support functions from other than the district office?

There will always be a need for someone to

teach principals and their staffs the skills of financial management and control and of using cost-effectiveness analysis in decision-making. The ideal context for such teaching is the budget process—that year-long activity that bridges planning, financial management and evaluation of results. In some cities, business managers are now assigned full-time to high schools and to clusters of elementary and middle schools. The role of the future school business manager is, then, that of teacher and leader, mediating between the worlds of finance and education.

Appendix A / INTERNET RESOURCES

The Internet provides valuable portals to information on school governance, financial management and operations, and the political and legal environment for school finance in the United States. Many of these sites feature links to other related sources. The author gratefully acknowledges the assistance of Loyola University Reference Librarian Cecile Maciulis and of his students in preparing this list. These web sites are provided for information only, and their inclusion is not intended as an endorsement of their sponsors' positions, products or services by the author or publisher.

Accounting Standards

Governmental Standards Accounting Board,
www.gasb.org

Administrative Associations

American Association of School Administrators,
www.aasa.org
Association of School Business Officials
International, *www.asbointl.org*
Illinois Association of School Administrators,
www.iasaedu.org
Illinois Association of School Business Officials,
www.iasbo.org
Illinois Principals Association, *www.ilprincipals.org*
National Association of State Directors of Special
Education, *www.nasds.org*
National Association of Elementary School
Principals, *www.naesp.org*
National Association of Secondary School
Principals, *www.nassp.org*

Associations of School Boards

Illinois Association of School Boards,
www.iasb.com
National School Boards Association,
www.nsba.org

Bond Counsel and Rating Agencies

Chapman and Cutler, *www.chapman.com*
FitchIBCA, *www.fitchibca.com*
Moody's Investors Service, *www.moodys.com*
Standard and Poor's, *www.standardandpoors.com*

Cost Control

Window on State Government (Texas)
www.window.state.tx.us

Education News and Research

American Educational Research Association,
www.aera.net
Educational Research Service, *www.ers.org*
Education Week, *www.edweek.org*

Federal Agencies

Department of Agriculture, *www.usda.gov*
Department of Education, *www.ed.gov*
Department of Transportation,
www.transportation.gov

Grant Information

Catalog of Federal Domestic Assistance,
www.cfda.gov
Chronicle of Philanthropy, *www.philanthropy.com*

Illinois Agencies

Illinois Department of Revenue,
www.revenue.state.il.us
Illinois State Board of Education,
www.isbe.state.il.us
Property Tax Appeal Board,
www.state.il.us/agency/ptab

Legislative Information

Alliance Legislative Reports, *www.iasb.com*
ED-RED, *www.ed-red.org*
Illinois General Assembly, *www.legis.state.il.us*

Multi-State Governance Organizations

Council of Chief State School Officers,
www.ccsso.org
 Education Commission of the States, www.ecs.org
 National Association of State Boards of Education,
www.nasbe.org
 National Conference of State Legislatures,
www.ncsl.org

Parent Organizations

Illinois PTA, www.prairienet.org/ipta
 National PTA, www.pta.org

Referendum Planning

National School Public Relations Association,
www.nspr.org

School Finance Research and Reform

Advocacy Center for Children's Educational
 Success with Standards,
www.accessednetwork.org
 American Education Finance Association,
www.ed.sc.edu/aefa

Campaign for Fiscal Equity, www.cfequity.org
 Center for Special Education Finance,
www.csef.air.org/new.html
 Consortium for Policy Research in Education,
www.wcer.wisc.edu/cpre
 Cross City Campaign for Urban School Reform,
www.crosscity.org

Support Services Management

American School Food Services Association,
www.asfsa.org
 Council of Educational Facilities Planners
 International, www.cefpi.org
 National Association of State Directors of Pupil
 Transportation Services www.nasdpts.org
 National Clearinghouse for Educational Facilities,
www.edfacilities.org
 National Food Service Management Institute,
www.nfsmi.org
 National School Plant Management Association,
www.nspma.com
 National School Transportation Association,
www.schooltrans.com

Appendix B / BIBLIOGRAPHY

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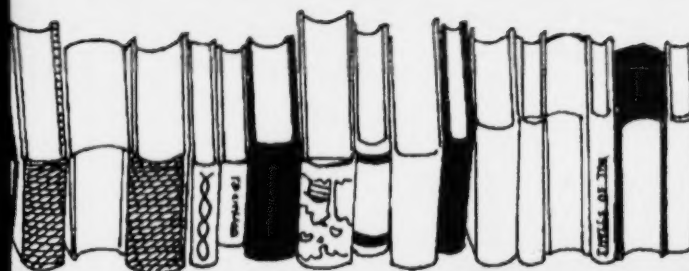
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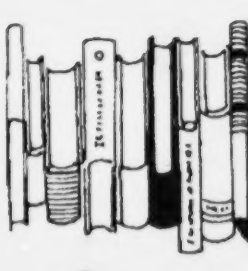
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Effective Schools Through Effective Management

By Fredric Genck and Allen Klingenberg.

This 1978 Classic was revised in 1991 and equipped with an appendix of leadership tools and a foreword putting school board reform in historical context. The leadership tools will help the school board and superintendent redefine their respective roles so that principals and teachers can move their schools toward educational excellence. The book spells out the management principles and practices essential to both effective school board governance and effective teaching and learning. *Effective Schools Through Effective Management* is a school official's plan for pursuing both educational excellence and professional and accountable teaching. Published by IASB, revised edition 1991, 236 pages, soft cover, \$11 (IASB members, \$8).

Good School Maintenance, Third Edition

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By Brian A. Braun

This "layman's guide to Illinois school law" answers more than 1,300 legal questions commonly raised by school board members, administrators, teachers, parents, students, and others interested in the public schools. The reference work presents questions and answers in 27 chapters on such topics as student discipline, the educational program, education of the handicapped, teacher employment, collective bargaining, school elections, public meetings, budgeting, property taxes and state aid. Answers are based on state and federal statutes, court decisions and government agency regulations and are current as of January 1, 2002.

Illinois School Law Survey carries an extensive "quick reference index," designed to help the user quickly locate topics of interest. All information is fully documented as to where the law may be found, and an explanation of legal references tells the reader how to locate statutes and court rulings for more information. New with this seventh edition is a companion CD ROM that will run on a PC or Apple Macintosh. The CD carries all of the same questions and answers as the printed version, plus it features live links to the full text of nearly all statutory, regulatory and case law citations. Published March, 2002 by the Illinois Association of School Boards, 672 pages, plus fully annotated and searchable CD ROM, soft cover, \$30 (\$25 for IASB members).

Illinois School Code, 2002 Edition

Book of statutes compiled by Lexis Law Publishing is available from the Illinois Association of School Boards (IASB). Current through all of the 2001 legislative session, the 2002 Code also carries a large number of additional statutes pertinent to the public schools, including: selected election laws and pension laws; Educational Labor Relations Act; Open Meetings Act; Freedom of Information Act; Economic Disclosure Section of the Governmental Ethics Act; Truth in Taxation Act; Local Records Act; Personnel Record Review Act; Prevailing Wage Act; Emancipation of Mature Minors Act; Local Government and Governmental Employees Tort Immunity Act; Gift Ban Act; pertinent sections from the Juvenile Court Act; School Visitation Rights Act, and a complete index. Published 2002, soft cover, complete with a CD ROM version for use on a PC or Apple Macintosh computer, \$28 per copy (\$23 for IASB members).

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By William W. Lockwood and Gary Howren

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